



California State Board of Pharmacy

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STATE AND CONSUMERS AFFAIRS AGENCY
DEPARTMENT OF CONSUMER AFFAIRS
ARNOLD SCHWARZENEGGER, GOVERNOR

ORGANIZATIONAL DEVELOPMENT COMMITTEE

Public Meeting Agenda

September 21, 2004

400 R Street, Suite 4080

Sacramento, CA 95814

1:30-3:30

This committee meeting is open to the public and is held in a barrier-free facility in accordance with the Americans with Disabilities Act. Any person with a disability who requires a disability-related modification or accommodation in order to participate in the public meeting may make a request for such modification or accommodation by contacting Candy Place at telephone number (916) 445-5014, at least 5 working days prior to the meeting.

Opportunities are provided to the public to address the committee on each agenda item. Board members who are not on the committee may also attend and comment.

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- A. Call to Order 1:30 p.m.
 - B. Discussion: How the Board of Pharmacy Can Improve and Facilitate Communications with the Public and its Licensees
 - C. Discussion: California Performance Review – A Proposal to Restructure State Government and its Proposal for the Board of Pharmacy
 - D. Budget Update/Report
 - 1. 2004/05 and Future Year Budgets
 - 2. AG Rate Increase
 - 3. Closure Report: Budget Report for 2003/04
 - 4. Fund Condition Report
 - 5. Relocation of the Department of Consumer Affairs
 - E. Personnel Update and Report
 - F. Adjournment

Meeting materials will be on the board's Web site by September 15th

Agenda Item B

Discussion:

*How Can the Board of Pharmacy
Improve and Facilitate
Communications with the Public and
Licensees*

Memorandum

To: Organizational Development Committee

Date: September 10, 2004

From: Virginia Herold

Subject: How Can the Board of Pharmacy Improve
Communication with the Public and
Licensees

At the board's July Meeting, President Goldenberg stated that one of the priorities for his term is to improve the communication of the board with its licensees and with the public.

To this end, each of the board's committees will hold a public meeting before the October board meeting with this topic listed as a discussion item. The goal is to establish a dialogue with our stakeholders on improving communication, and to bring these to the next board meeting.

The board has several broad-based means of communication with the public and with licensees:

- Quarterly board meetings, where public input for each agenda area has public input scheduled as a component.
- Web site information
- Consumer education materials
- Co-sponsorship of public education events (e.g., 2003's Hot Topic Seminars with the UCSF School of Pharmacy)
- Attendance at continuing education fairs
- Attendance/staffing at public education fairs and events
- A subscriber e-mail notification system about major new information added to the board's site (about to be implemented)

The board has at least 19 public meetings annually, where an agenda is mailed and posted on our Web site 10 days before a meeting. There are four board meetings, and at least 15 additional public meetings of board committees (all meetings of Public Education, Enforcement and Licensing are public, at least two Legislation and Regulation Committee meetings are public each year, as is at least one Organizational Development Committee meeting).

In addition, the board currently uses various means of communication with licensees:

- *The Script* newsletter

- Presentations by board members and supervising inspectors of the board's CE outreach programs to groups of pharmacists, typically at professional meetings (at least 34 presentations were provided during 2003/04)
- Attendance and staffing of information booths at major educational fairs hosted by the major pharmacist associations
- In rare cases, letters are mailed directly to licensees advising them about major changes in programs (for example, changes in wholesaler requirements or foreign graduation evaluations)
- *Health Notes*, a health monograph developed by the board in a particular area that contains current drug treatment modalities, and which provides continuing education for pharmacists in subjects of importance to the board.

Perhaps less broad-based, but certainly important means of communicating with the public or licensees include:

- Inspections (2,582 inspections were conducted during 2003/04)
- Written, faxed and telephone inquiries directly to the board.
- Surveys of all complainants following closure of their complaints
- Coming is a "Web site User Survey" (currently the board's Web site is being redesigned. One new component will be a "Web site user survey" to seek feedback on the Web site. This information will be used to enhance our Web site)

The board periodically attempts new means of providing information to licensees and other interested parties. As an example, since April, board staff have provided at least three teleconferenced continuing education sessions dealing with the implementation of SB 151 regarding new requirements for the prescribing and dispensing of controlled substances. We also have produced our first audio tape of one of these teleconferences which is now available on our Web site, so individuals can obtain the information whenever convenient for them.

A board member and staff also attended each of the four California schools of pharmacy this spring to advise graduating students about the new licensure examinations and processes.

Agenda Item C

Discussion:

*California Performance Review – A
Proposal to Restructure State
Government and its Proposal for the
Board of Pharmacy*

Memorandum

To: Organizational Development Committee

Date: September 10, 2004

From:  Virginia Herold

Subject: California Performance Review

The Governor released his plan to “blow up the boxes” of state government into a new structure at the beginning of August. His plan is detailed in a 2,547-page report, developed by the California Performance Review, a group of 275 “specially appointed state employees, administrative officials and outside consultants” that was charged to overhaul state government into a more logical and less costly organization. The CPR states that its reorganization will achieve \$32 billion in savings over five years.

Seven public hearings have been scheduled to collect information from the public, as of today, five of these hearings have occurred. The board’s mailing list of interested individuals (those on our agenda mailing list) was provided to the Department of Consumer Affairs presumably so these individuals could be notified.

The restructuring would eliminate 118 of 339 boards and commissions, as well as the Department of Consumer Affairs. The healing arts licensing boards of the department would be merged into a new Department of Health and Human Services, this includes the Board of Pharmacy. Most other regulatory boards in the department today have been targeted for elimination.

The board has an opportunity to submit comments to the Governor on this restructuring plan. Should the committee develop comments, these will be referred to the board for action at the October meeting.

I am providing a number of background documents:

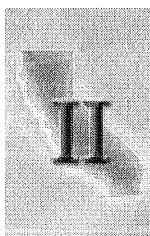
- An overview of the four-volume report (1 page)
- *LA Times* article (dated 7/30/04) providing an overview of the CPR report (4 pages)
- An excerpt of HHS21 to “Consolidate Licensing and Certification Functions” (6 pages)
- Two excerpts of the “Implementing Statutes” that would implement the CPR’s changes as they would affect the Board of Pharmacy (5 pages)
- Agenda for the August 20th Public Hearing on Health and Human Services, and those who testified (5 pages)
- A copy of the Legislative Analyst’s Evaluation of the CPR Reorganization (this is the Legislature’s “unbiased” assessment). It is comparatively brief and provides a good overview of the CPR (20 pages)

The Report of the California Performance Review - **Government for the People for a Change** - contains four volumes of comprehensive recommendations to reform and revitalize California's state government. 275 volunteers worked tirelessly for five months examining organizational structures, analyzing data, meeting with stakeholders and compiling the recommendations now presented to you, below:



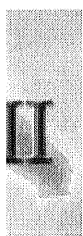
Prescription for Change

This first volume of the report **summarizes CPR's recommendations** and is a call to action to dramatically change state government by reorganizing its structure and streamlining operations to improve accountability and productivity.



Form Follows Function

California's **government must reorganize** to meet the demands of modern California. In this volume, CPR proposes a new framework that aligns programs by function, consolidates shared services and abolishes outdated entities.



Keeping the Books

CPR's team of auditors examined the state's budget process, financial controls and strategic planning efforts. This volume is their evaluation of the state's **fiscal and performance management** practices.



Issues and Recommendations

The fourth volume of the CPR report contains **279 government issues** with over 1,200 recommendations that have the potential to **save the state \$32 billion** over the next five years and guide California's government into the 21st century.

*"There are risks and costs to a program of action.
But they are far less than the long-range risks and costs of comfortable inaction."*

-- President John F. Kennedy

Times Staff Writers

July 30, 2004

SACRAMENTO — A panel created by Gov. Arnold Schwarzenegger is proposing a top-to-bottom overhaul of state government that would leave virtually no piece of the state's sprawling bureaucracy intact.

It would wipe out more than 100 boards and commissions, consolidate a tangle of state services and give departments fresh mandates in an ambitious bid to make government leaner and improve its performance, according to a copy of a report obtained by The Times.

In the most intimate of ways, the plan would influence how Californians live their lives. It would change the cutoff date for entering kindergarten; the method in which people answer questions on driver's license exams; the size of jackpots collected by lottery winners; and the procedures for officially complaining about a bad haircut.

The sweeping recommendations, which have not yet been embraced by the governor, are expected to become a target for interest groups and to face major obstacles getting through the Legislature.

If enacted, the plan would greatly concentrate power in the governor's hands while saving \$32 billion over the next five years, in the review panel's estimate.

The proposals are spelled out in a 2,547-page report prepared by his California Performance Review, a team of more than 275 specially appointed state employees, administrative officials and outside consultants who have spent the past five months working largely in secret, evaluating California's government as part of the governor's promise to "blow up the boxes" and create a more streamlined bureaucracy.

"California's spirit is alive and well, but in one vital area the state is ailing," reads the report, which is due to be formally released next week. "Once the envy of the nation, today our state government fails the people of California, and it fails the men and women who have given their careers to its service."

Many of the thousands of proposed changes aim to make government more manageable — to logically organize a state bureaucracy that now relies on hundreds of agencies, departments, divisions, boards and commissions, many with duplicative or overlapping jurisdictions.

The plan is certain to face challenges on ideological as well as pragmatic fronts — from appointees who stand to lose power, legislators uncomfortable with the expansion of executive authority, advocates who object to shrinking government and analysts skeptical of the billions in projected savings.

Nothing on this scale has been tried in decades. Paul Miner, Schwarzenegger's deputy Cabinet secretary who is one of the leaders of the California Performance Review, has said there has not been a study this sweeping in scope since one conducted under former Gov. Ronald Reagan in the 1960s.

"None of this will be accomplished ... through stopgap measures and half-hearted attempts at coordination," the report reads.

Of 339 boards and commissions, a total of 118 would be abolished — doing away with 1,153 appointed positions.

One example: Tax-collecting powers are now divided among three agencies -- the Franchise Tax Board, the independently elected Board of Equalization and the Employment Development Department. All three would be combined into one agency.

The plan is to be formally presented to Schwarzenegger on Tuesday. One recommendation endorsed in the report by the governor's wife, Maria Shriver, would require students at public colleges and universities to participate in community service.

Rob Stutzman, the governor's communications director, said: "What you will see on Tuesday is a report and recommendations, and the administration will be evaluating it and will take public input."

Schwarzenegger has created a 21-person commission that will hold five public hearings on the report throughout the state in August and September. The proposed government reorganization will go to the Little Hoover Commission, which will make recommendations to Schwarzenegger and the Legislature. The governor is expected to send a final version of the plan to the Legislature next year.

"In order for it to get the green light from the Legislature, it's got to be close to perfect," Assembly Speaker Fabian Nuñez (D-Los Angeles) said. "And if it isn't, I think it's going to run into a lot of problems."

Here is what the plan would do in certain areas:

- Transportation, water, energy and housing

A department would be created that controls all decisions about state infrastructure -- transportation and housing projects, school construction, energy, telecommunications and the safety of waterways. The Infrastructure Department would consolidate functions now spread across 25 bodies -- including Caltrans and the Department of Water Resources.

- Health and human services

One of the state's most expensive tasks -- \$26.4 billion in public health and welfare programs -- would be streamlined, giving more responsibilities to counties and allowing private contractors to conduct work now done by government employees. The report calls for "sweeping change in financing and delivery of healthcare services to children."

County child-support agencies would be eliminated, and private contractors would have to compete with local agencies for contracts to handle 1.8 million cases, the report recommends.

Free food for young mothers through the state-run Women, Infants and Children program, would be distributed through electronic cards instead of vouchers. Welfare and Medi-Cal applications would be processed on the Internet and through the mail.

The changes would move the Department of Managed Care under the authority of a Department of Health and Human Services and would create a Center for Public Health that would centralize planning and risk assessment, including scientists now working for Cal-EPA analyzing the risk of toxic chemicals.

- Education

The report says California is paying a high cost by not doing a better job of educating its workforce. It recommends a wide array of changes to save money.

The plan would revise the rule that three of every four community college instructors be full-time. It recommends that teachers of career and technical courses be excluded from that ratio.

The report also urged Schwarzenegger to seek a constitutional amendment to abolish county superintendents of schools and county education boards.

The panel would change the cutoff date for kindergarten from Dec. 2 to Sept. 1, on the theory that children who enter kindergarten before they are 5 do not develop as well. The measure would affect at least 90,000 children.

- State budgeting

All major decisions on managing the state's fiscal affairs would fall under the director of a new Office of Management and Budget – a key recommendation to change a system the commission harshly criticized as inefficient and wasteful. "The governor and the Legislature do not have access to the information necessary to make strategic decisions," the report states.

The key agencies that oversee state finances – departments of Finance, General Services and the state personnel board – "should collectively serve as the backbone of state government, yet the functions they perform are so fragmented that strategic management and efficient operation is currently impossible," the commission concludes.

The commission would replace them with the Office of Management and Budget. It also would oversee technology and regulatory affairs and take over responsibilities of the Department of General Services.

The report also recommends the state budget, which is the subject of acrimonious haggling each year, cover two years – as 21 other states do. The report said the current annual budget "creates great pressures on all budget staff and policymakers" and other problems. "Important state programs are interrupted and services postponed. In addition, small and large businesses alike suffer because the state does not pay its bills on time."

- Law enforcement

The proposal calls for melding dozens of law enforcement agencies and offices sprinkled throughout the bureaucracy into a single department, where, the panel said, a coordinated response to crime, terrorism and natural disasters would provide better protection to the citizens of the state. Included under the umbrella of the new department of Public Safety and Homeland Security would be the California Highway Patrol, Alcoholic Beverage Control enforcement and environmental investigators, among others.

- Environment

The plan creates a new Department of Environmental Protection that would usurp powers now held by various boards, including the Air Resources Board and the Department of Forestry and Fire Protection, which would be abolished.

"The members of these boards and commissions are not accountable to the secretary or the governor. As a result it is difficult to implement a coherent environmental protection policy," the report says about the 16 legislatively created boards and commissions that now regulate the environment.

- Consumer protection

The commission would eliminate dozens of licensing boards that now regulate conduct of professions such as doctors, dentists and barbers. The licensing

responsibilities now split among more than 45 agencies would be assumed by the new Department of Commerce and Consumer Protection.

"The multitude of boards and commissions increases the risk that the board members can be unduly influenced by the industry the board is supposed to regulate, accepting lax standards instead of protecting consumers," the report says.

This new department would also oversee gambling, the lottery and horse racing, eliminating the horse racing board. Almost all functions of the state Department of Motor Vehicles would also be under the new agency. The commission also recommended that drivers be allowed to renew licenses via the Internet.

As proposed, the California Lottery would join with several other states to pool jackpot earnings, such as the Mega Millions lottery shared by 11 states, including New York and Virginia. Jackpots would undoubtedly skyrocket with a state as large and wealthy as California joining the pool. The Mega Millions jackpot, for example, once reached \$363 million.

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Times staff writers Jordan Rau, Marc Lifsher, Evan Halper, Miriam Pawel and Gabrielle Banks contributed to this report.

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(BEGIN TEXT OF INFOBOX)

The plan's impact

Among recommendations of Gov. Arnold Schwarzenegger's California Performance Review:

- Eliminate 118 boards and commissions and 1,153 appointees.
- Allow Californians to renew driver's licenses, apply for welfare and conduct more state business by computer.
- Join multistate lottery.
- Abolish county superintendents of schools and county education boards. Delay entrance to kindergarten for 90,000 children a year.
- Phase out state air quality board, which monitors smog.

Paul Riches, Chief of Legislation and Regulation
CA Board of Pharmacy
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HHS21 Consolidate Licensing and Certification Functions

Summary

Many different state departments, agencies and boards are in the business of licensing and certifying health care professionals and facilities and programs both within and outside the Health and Human Services Agency. This results in inconsistent requirements, locations and oversight for licensing and certification requirements. Merging licensing and certification functions under a single authority would make services more consistent, cost-effective and responsive.

Background

State agencies perform a variety of licensing and certification functions relating to health and human services. They license facilities and professional staff as providing safe and quality services. They certify to the federal government that health care facilities and professionals are eligible for payments under the Medicare and Medicaid (Medi-Cal) programs. They also certify that certain categories of health and human services staff can provide specific services.

Most, but not all, of these agencies and boards are housed either within the Health and Human Services Agency (HHS) or the Department of Consumer Affairs (DCA). The following HHS departments license or certify facilities, programs or individuals providing services to children or adults:

- Department of Health Services (DHS);
- Department of Social Services (DSS);
- Department of Mental Health (DMH);
- Department of Aging (DOA);
- Department of Alcohol and Drug Programs (DADP); and
- Emergency Medical Services Authority (EMSA). [1]

Of these departments, DHS and DSS have the largest licensing and certification programs. DHS regulates the quality of care in public and private health facilities, clinics and agencies throughout the state through licensure and certification of facilities, direct care staff and laboratory personnel. [2] DSS licenses and regulates facilities and personnel providing social services in a residential setting, child care and adult day social services. [3] In addition, some 16 DCA boards and at least one independent board are responsible for licensure or certification of 35 categories of health care professionals. [4] While some of these boards license or certify multiple categories of health care providers, many are responsible for licensure of only one category of health care professional.

Many state licensing and certification activities require knowledge of both state and federal law. For example, DHS is under contract with the federal Center for Medicare and Medicaid Services to certify skilled nursing facilities and hospitals for participation in the Medicare and Medicaid programs. [5] On the other hand, DSS licensing requirements are governed only by state law. [6] In total, the departments, agencies and boards oversee approximately 58 different types of facilities and programs, as well as more than 50 categories of health and human services professionals. [7] For some departments and boards, the workload is enormous. For

example, DSS is currently responsible for licensure of approximately 92,000 community care facilities, while DHS licenses and monitors nearly 1,400 skilled nursing facilities. [8] The Medical Board of California is responsible for licensure of more than 115,000 physicians, and the Board of Registered Nursing is responsible for licensure of nearly 300,000 registered nurses. [9] Other departments and boards have somewhat less daunting workloads.

All of these licensing and certification entities perform similar functions. They all review applications, develop regulations, license or certify facilities and/or professional staff, respond to complaints, and mete out appropriate penalties for violations. All are required to conduct criminal background checks on certain categories of licensees and/or their staff. In addition, generally, those entities responsible for licensure or certification of facilities must monitor those facilities on a periodic basis, which includes on-site visits. [10] For example, by statute, DHS must visit home health agencies once each year unless the agency is certified to receive Medicare or Medicaid (Medi-Cal) reimbursement. [11] Further, entities that license or certify professional staff are usually responsible for overseeing requirements for continuing education. Finally, some, but not all, of these entities administer a license/certification renewal process. DSS does not require facilities to renew their licenses, although an annual fee must be submitted. [12] However, DHS requires both facilities and professional staff to renew their licenses. [13]

Potential efficiencies

Merging several entities or portions thereof create the possibility for streamlining the entry of qualified professionals and businesses into the health and human services system through combined screening, licensing and tracking processes. A consolidated structure makes it possible to create a more agile, business-responsive system, aid in workforce growth and increase the availability of health and human services options to consumers. [14]

Common professional skill sets. Efficiencies can be attained through the use of a knowledgeable cadre of staff from the consolidated agencies that possess the transferable skills sets necessary to run a uniform licensure and certification program at the lowest possible cost. [15] Most licensing staff are either generalists or nurses. Specialized staff are fewer in number and perform specific functions. Potential efficiencies would result from using staff in inspection and enforcement functions in a broader manner, crossing into other facility types as needed. For example, it is currently possible to have two types of facilities operating within the same building that must be separately licensed by DHS and DSS, including separate applications, monitoring visits and fees. If a Skilled Nursing Facility, which is licensed by DHS, is on the same premises as a Residential Care Facility for the Elderly, which is licensed by DSS, current protocols would involve separate inspections from the two departments, on separate schedules, to conduct the required licensing visits. [16] The proposed consolidation of licensing functions would facilitate training of licensing staff to review more than one level of care, which could result in fewer site visits and greater operational efficiency.

Resolution of policies and practices that result in barriers to care. There are longstanding inconsistencies between state licensing boards and state departments involving policies related to scope and site of practice of health professionals. These

inconsistencies have a direct impact on both the quality and cost of care. For example, dental hygienists cannot provide care in nursing homes independent of dentists and very few dentists wish to practice in nursing homes. Many residents cannot travel to dental offices and are not able to maintain good dental hygiene. This can result in tooth extractions, modified diets and nutritional deficiencies, all of which may lead to more costly health care. In a consolidated environment, policies and practices that result in barriers to care can be reconciled. [17]

Databases. Centralized databases would help to protect consumers from providers that have been banned from delivering services in any consumer setting. [18] For example, DHS and DSS both maintain statewide tracking systems to identify prior licensees who have run afoul of the law. Shared databases could reduce or eliminate duplication and improve the ability of each licensing entity to identify providers with a prior history of significant problems that may be known to another licensing entity. A centralized database would also benefit the professional staff that provides health and human services to clients. For example, if a Certified Nurse Assistant working part-time in a Residential Care Facility for the Elderly also wishes to work part-time in a Skilled Nursing Facility, that individual currently must undergo a separate background check because the departments do not share a database. [19] A single functional area with a centralized database could reduce the number of duplicate background checks.

Administrative functions. Administrative support functions, such as issuing licenses, collecting fees, and conducting criminal record clearances could be consolidated, streamlined and automated. This could reduce or eliminate backlogs, making it faster and easier for professionals and businesses to obtain and maintain ongoing licensure.

Enforcement functions. A single enforcement unit will be able to partner with the Department of Justice and other law enforcement entities on initial clearances of applications and uniform enforcement of disciplinary actions and sanctions.

Previous recommendation to consolidate

In its May 2004 report entitled *Real Lives, Real Reform: Improving Health and Human Services*, the Little Hoover Commission described the licensing and certification function as "a regulatory tool the State uses to prevent and respond to threats to the health and well-being of Californians." [20] In that report, the commission recommended that facility and personnel licensing and certification activities be consolidated. [21] Specifically, the report proposes a Licensing and Certification Service Center that would report to the Health and Human Services Agency Secretary and respond to the needs of the departments within the Agency. [22]

Comparison with other states

None of the states contacted regarding the structure of their health and human services licensing and certification functions has fully consolidated those functions. Some states are either in the process or have successfully consolidated some licensing functions. For example, Texas's most recent proposal would place child care licensing under the control of the state's Children and Families Department rather than the Department of Protective and Regulatory Services. [23] Connecticut,

Delaware, Florida, Illinois, Kentucky, New Mexico, Rhode Island and Tennessee and the District of Columbia have consolidated licensing of children's programs under a separate state agency. [24] However, in Ohio, Pennsylvania, New York, Texas and Florida, such licensure and/or certification, whether for Medicaid- or non-Medicaid-covered services, is currently conducted by the single state authority for substance abuse services, rather than by a consolidated licensing authority. [25]

Recommendation

The Health and Human Services Agency, or its successor, should sponsor legislation consolidating licensing and certification functions affecting delivery of health care services.

This would include all health and human services licensing and certification functions currently housed in the Health and Human Services Agency, Department of Consumer Affairs and any independent agencies or boards.

Fiscal Impact

Consolidating all licensing and certification activities in one place should create opportunities for significant cost savings as duplicative functions are eliminated. In its most recent report, the Little Hoover Commission estimated that consolidating certain health and human services licensing agencies could result in savings equal to 10 percent of personnel costs. [26] Based on this figure, we estimate that total annual savings will be \$16 million, with General Fund savings of \$4.6 million. These would be realized on an ongoing basis after a one-year implementation period.

General Fund (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004-05	\$0	\$0	\$0	0
2005-06	\$4,652	\$0	\$4,652	0
2006-07	\$4,652	\$0	\$4,652	(91)
2007-08	\$4,652	\$0	\$4,652	(91)
2008-09	\$4,652	\$0	\$4,652	(91)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003-04 expenditures, revenues and PYs.

Other Funds (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004-05	\$0	\$0	\$0	0
2005-06	\$11,961	\$0	\$11,961	0
2006-07	\$11,961	\$0	\$11,961	(162)

2007-08	\$11,961	\$0	\$11,961	(162)
2008-09	\$11,961	\$0	\$11,961	(162)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

[1] Susan Diedrich, assistant secretary, Health and Human Services Agency, fax message (May 5, 2004); Brenda Klutz, deputy director, Licensing and Certification, Department of Health Services, interview (May 10, 2004); Patricia Morrison, Licensing and Certification, Department of Health Services, interview (May 19, 2004); Richard Rodriguez, Prevention Services, Department of Health Services (May 10-12, 2004); and Debbie Prinzo, Prevention Services Division, Department of Health Services, e-mail message (June 1, 2004).

[2] Interview with Brenda Klutz, deputy director, Licensing and Certification Division, Department of Health Services, Sacramento, California (April 29, 2004). Interviews with Richard Rodriguez, assistant deputy director, Prevention Services, Department of Health Services, Sacramento, California (May 10-12, 2004).

[3] E-mail message from Curt Smith, Skilled Healthcare (April 13, 2004). Interview with Curt Smith, Skilled Healthcare, Foothill Ranch, California (June 7, 2004).

[4] Certification of nurse assistants is required by Health & S.C. Sections 1337, 1337.1 and 1337.2. Certification of home health aides is required by Sections 1727(d) and 1736.1. Backlog as of March 2004. Department of Health Services, "Licensing and Certification Program, Professional Certification Branch, 4-30-04 staffing.doc," received from Brenda Klutz, deputy director, Licensing and Certification Division, Department of Health Services (May 12, 2004) (Unpublished report).

[5] E-mail from Brenda Klutz, deputy director, Licensing and Certification Program, Department of Health Services, to California Performance Review (June 17, 2004).

[6] Interview with Bill Jordan, chief, Caregiver Background Check Bureau, and Gary Palmer, chief, Administrative Support Bureau, California Department of Social Services, Sacramento, California (June 17, 2004).

[7] Department of Health Services, "Types of Facilities Licensed and Certified by the Program;" Health and Welfare Agency report; Department of Finance, "Governor's Budget 2004–05, Salaries and Wages Supplement;" survey of website search on Board of Chiropractic Examiners; and survey of website search on Department of Consumer Affairs.

[8] Department of Finance, "Governor's Budget Summary 2004–05," p. 133; and California Department of Health Services, "FFY 2003 Workload Allocation and PY Count" (Sacramento, California, September 15, 2003).

[9] Medical Board of California, "2002-2003 Annual Report," http://www.medbd.ca.gov/02_03annualreport.pdf (last visited June 20, 2004); and Board of Registered Nursing, "The BRN Report," Fall 2003, <http://www.rn.ca.gov/policies/pdf/brnfall2003.pdf> (last visited June 20, 2004).

[10] Interview with Bill Jordan and Gary Palmer; e-mail from Brenda Klutz, deputy director, Licensing and Certification Program, Department of Health Services (June 17, 2004); and e-mail from Alfred Nicholls, chief, Licensing and Certification, Program Compliance, Department of Mental Health, to California Performance Review (June 18, 2004).

[11] Health & S. C. 1733.

[12] Interview with Bill Jordan and Gary Palmer.

[13] E-mail from Brenda Klutz.

[14] Issue memo, provided during interview with Brenda Klutz, deputy director, Licensing and Certification Program, Department of Health Services (March 15, 2004).

[15] Issue memo provided by Brenda Klutz.

[16] Interview with Bill Jordan and Gary Palmer.

[17] Issue/Problem memo, provided by Brenda Klutz, deputy director, Licensing and Certification Program, Department of Health Services, sent to California Performance Review, March 15, 2004.

[18] Issue/Problem memo provided to California Performance Review.

[19] Interview with Bill Jordan, and Gary Palmer.

[20] Little Hoover Commission, "Real Lives, Real Reforms: Improving Health and Human Services" (Sacramento, California, May 2004), p. 38.

[21] Little Hoover Commission, "Real Lives, Real Reforms: Improving Health and Human Services," p. 44.

[22] Little Hoover Commission, "Real Lives, Real Reforms: Improving Health and Human Services," p. 42.

[23] E-Texas, "GG3: Consolidate Health and Human Services Agencies to Reduce Cost and Improve Service Delivery," January 2003, <http://www.window.state.tx.us/etexas2003/gg03.html> (last visited June 20, 2004).

[24] American Public Human Services Association, 2001–2002 Public Human Services Directory (Washington, D.C., June 15, 2002).

[25] Interview with Doug Day, Medicaid administrator, Ohio Department of Drug Addiction Services, Columbus, Ohio (May 17, 2004); interview with Jean Rush, program specialist, Office of Mental Health and Substance Abuse Services, Pennsylvania Department of Public Welfare, Harrisburg, Pennsylvania (May 13, 2004); interview with Marie Spada, addiction program specialist, New York Office of Alcoholism and Substance Abuse Services, Albany, New York (May 11, 2004); interview with Brad Bergeson, manager, Services Coordination Division, Texas Commission on Alcohol and Drug Abuse, Austin, Texas (May 10, 2004); Florida Department of Children and Families, "Substance Abuse," <http://www.dcf.state.fl.us/mentalhealth/sa/> (last visited June 20, 2004).

[26] Little Hoover Commission, "Real Lives, Real Reforms: Improving Health and Human Services," p. 41.

Implementing Statutes

California State Government is a complex web of organizational entities consisting of 11 agencies, 79 departments and more than 300 boards and commissions. This appendix contains a conceptual draft legislative framework to reorganize state government reflecting the form follows function approach identified by the California Performance Review.

Article 2 (commencing with section 12815) is added to Chapter 1, Part 2.5, Division 3, Title 2 of the Government Code.

12815. Effective July 1, 2005, there is hereby created in state government the Department of Commerce and Consumer Protection, to be headed by a Secretary, who shall be appointed by, and hold office at the pleasure of, the Governor, subject to Senate confirmation.

➤ 12815.1. The Department of Commerce and Consumer Protection hereby succeeds to, and is vested with, all the powers, duties, responsibilities, obligations, liabilities, and jurisdiction of the following Departments, Offices, and Boards, which effective July 1, 2005, shall no longer exist:

✓ (a) Department of Consumer Affairs, except as to those functions which have been transferred to other agencies as provided by law;

(b) Department of Corporations;

(c) Department of Financial Institutions;

(d) Department of Motor Vehicles except as to those functions which have been transferred to other agencies as provided by law;

(e) Department of Real Estate; and

(f) Office of Real Estate Appraiser.

For purposes of this article, the above entities shall be known as predecessor entities.

12815.2. The Department of Commerce and Consumer Protection hereby succeeds to, and is vested with, all the duties, responsibilities, obligations, liabilities, and functions of entities within the Department of Consumer Affairs, which effective July 1, 2005, shall no longer exist:

(a) Motor Vehicle Arbitrator Certification Program (B&P 742)

(b) Bureau of Automotive Repair;

(c) Bureau of Electronic and Appliance Repair;

(d) Office of Privacy Protection;

(e) Cemetery and Funeral Bureau;

(f) Bureau of Home Furnishing and Thermal Insulation;

(g) Hearing Aid Dispensers Bureau;

(h) Bureau of Security and Investigative Services of the Department of Consumer Affairs;

(i) Private Security Disciplinary Review Commission (North and South); and

(j) Alarm Company Disciplinary Review Committee.

For purposes of this article, the above entities shall be known as predecessor entities.

12815.3 . The Department of Commerce and Consumer Protection hereby succeeds to, and is vested with, all the powers, duties, responsibilities, obligations, liabilities, and jurisdiction of the following Boards, Committees and Commissions within the Department of Consumer Affairs, which effective July 1, 2005, shall no longer exist:

- (a) California Architects Board;
- (b) California State Board of Barbering and Cosmetology;
- (c) Contractors State License Board;
- (d) Court Reporters Board of California;
- (e) Board for Professional Engineers and Land Surveyors;
- (f) Landscape Architects Technical Committee;
- (g) Speech-Language Pathology and Audiology Board;
- (h) California Horse Racing Board; and
- (i) Board of Pilot Examiners for Bays of San Francisco, San Pablo and Suisun.

For purposes of this article, the above entities shall be known as predecessor entities.

12815.4. The Department of Commerce and Consumer Protection hereby succeeds to, and is vested with, all the duties, responsibilities, obligations, liabilities, and functions and personnel of entities within Departments, which effective July 1, 2005, shall no longer exist:

- (a) Outdoor Advertising licensing and permitting functions within the Department of Transportation;
- (b) Licensing of vessel operators from within the Dept. of Boating and Waterways;
- (c) Licensing of "For hire" vessel operators from within the Dept. of Boating and Waterways;
- (d) Licensing of yacht and ship brokers and salespersons within the Department of Boating and Waterways;
- (e) Functions of the Division of Weights and Measures within the Department of Food and Agriculture;
- (f) Talent Agency licensing under the Labor Commissioner within the Department of Industrial Relations; and
- (g) Advance-Fee Talent Services licensing under the Labor Commissioner within the Department of Industrial Relations.

For purposes of this article, the above entities shall be known as predecessor entities.

12815.5 . Effective July 1, 2005, the following entities are hereby transferred to the Department of Commerce and Consumer Protection and shall retain all existing powers, duties, purposes, responsibilities, and jurisdiction:

- (a) California Gambling Control Commission;
- (b) Board of Accountancy; and
- (c) California State Lottery Commission.

Note: GAP in text to conserve Page# Non relevant to Board

12820.6 . On and after July 1, 2005, any officer or employee of the predecessor entities who is performing a function transferred to the Department of Food and Agriculture and who is serving in the state civil service, other than as a temporary employee, shall be transferred to the Department of Food and Agriculture pursuant to the provisions of Government Code Section 19050.9.

The status, position, and rights of any officer or employee of the predecessor entities and continuing entities shall not be affected by the transfer and shall be retained by the person as an officer or employee of the Department of Food and Agriculture, as the case may be, pursuant to the State Civil Service Act (Part 2 [commencing with Section 18500] of Division 5 of Title 2 of the Government Code), except as to a position that is exempt from civil service.

Article 6 (commencing with section 12822) is added to Chapter 1, Part 2.5, Division 3, Title 2 of the Government Code.


➤ 12822. There is hereby created in state government the Department of Health and Human Services, to be headed by a Secretary, who shall be appointed by, and hold office at the pleasure of, the Governor, subject to Senate confirmation. Commencing July 1, 2005, any reference in any law to the "Health and Human Services Agency" or the "Health and Welfare Agency" shall refer to the Department of Health and Human Services.

12822.1. The Governor shall appoint, upon the nomination of the Secretary, such officers as are deemed necessary to manage and direct the functions of the department.

12822.2 . The Department of Health and Human Services hereby succeeds to, and is vested with, all the powers, duties, purposes, responsibilities, and jurisdiction of the following Agency, Boards, and Departments which effective July 1, 2005, shall no longer exist:

- (a) Health and Human Services Agency (with the exception of Health and Human Services Data Center which is transferred to the Office of Management and Budget);
- (b) Department of Aging;
- (c) Department of Child Support Services ;
- (d) Department of Developmental Services, except the Office of Protective Services, which is transferred to the Department of Public Safety and Homeland Security;
- (e) Department of Health Services (with the exception of (1) the Office of the Safe Drinking Water and Radioactive Materials Inspection Compliance and Inspection Section, which shall be transferred to the Department of Environmental Protection unless otherwise provided, (2) the Food and Safety Section, Food and Drug Laboratory Section, and the Food Partnership Laboratory, which shall be transferred to the Department of Food and Agriculture, and (3) the Battered Women's Shelter Program, which shall be transferred to the Department of Public Safety and Homeland Security.);
- (f) Department of Alcohol and Drug Programs;
- (g) Department of Community Services and Development;
- (h) Department of Mental Health;
- (i) Department of Social Services;
- (j) Department of Rehabilitation (with the exception of the Vocational Rehabilitation program which is transferred to the Department of Labor and Workforce Development);
- (k) California Medical Assistance Commission;
- (m) Managed Risk Medical Insurance Board;
- (n) Office of HIPPA implementation;
- (o) Office of Environmental Health Hazard Assessment;
- (p) Department of Managed Health Care; and
- (r) Office of Statewide Health Planning and Development.

For purposes of this article, the above entities, with the exception of the transferred entities, shall be known as predecessor entities.

 12822.3. Effective July 1, 2005, the following entities are hereby transferred to the Department of Health and Human Services and shall retain all existing powers, duties, purposes, responsibilities, and jurisdiction:

- (a) California Children and Families Commission;
- (b) State Independent Living Council;
- (c) Continuing Care Advisory Committee;
- (d) Developmental Disability Area Boards;
- (e) Health Professions Education Foundation;
- (f) Health Professions Educational Foundation Board of Trustees;
- (g) Healthcare Workforce Policy Commission;
- (h) Hospital Advisory Boards;
- (i) Interagency Coordinating Council on Early Intervention;
- (j) State Council on Developmental Disabilities;
- (k) California Board of Acupuncture within the Department of Consumer Affairs;
- (l) Board of Behavioral Sciences within the Department of Consumer Affairs;
- (m) Committee on Dental Auxiliaries within the Department of Consumer Affairs;
- (n) Dental Board of California within the Department of Consumer Affairs (with the exception of those powers, duties, responsibilities, obligations, liability and jurisdiction transferred to the Department of Public Safety and Homeland Security) ;
- (o) California Medical Board within the Department of Consumer Affairs (with the exception of those powers, duties, responsibilities, obligations, liability and jurisdiction transferred to the Department of Public Safety and Homeland Security);
- (p) Naturopathic Medicine Bureau within the Department of Consumer Affairs;
- (q) Board of Occupational Therapy within the Department of Consumer Affairs;
- (r) Board of Optometry within the Department of Consumer Affairs;
- (s) Osteopathic Medical Board of California within the Department of Consumer Affairs;
- (t) California State Board of Pharmacy within the Department of Consumer Affairs;
- (u) Physician Assistant Committee within the Department of Consumer Affairs;
- (v) Physical Therapy Board of California within the Department of Consumer Affairs;
- (w) Board of Podiatric Medicine within the Department of Consumer Affairs;
- (x) Board of Psychology within the Department of Consumer Affairs;
- (y) Board of Registered Nursing within the Department of Consumer Affairs;
- (z) Registered Veterinary Technicians Committee within the Department of Consumer Affairs;
- (aa) Respiratory Care Board within the Department of Consumer Affairs;
- (bb) Veterinary Medical Board within the Department of Consumer Affairs;
- (cc) Board of Vocational Nursing and Psychiatric Technicians;
- (dd) Board of Chiropractic Examiners; and
- (ee) Financial Solvency Standards Advisory Board.


For purposes of this article, the above entities shall be known as continuing entities.

12822.4. (a) The Secretary of Health and Human Services shall have the powers of a head of a department pursuant to Chapter 2 (commencing with Section 11150) of Part 1 of Division 3 of Title 2 of the Government Code.

(b) Without limiting any other powers or duties, the secretary shall assure compliance with the terms of any state plan, memorandums of understanding, administrative order, interagency agreements, assurances, single state agency obligations, federal statute and regulations, and any other form of agreement or obligation that vital government activities rely upon or are a condition to the continued receipt by the department of state or federal funds or services. This includes, but is not limited to the designation, appointment, and provision of individuals, groups, and resources to fulfill specific obligations of any agency, board or department that is abolished pursuant to Section 12822.2.

12822.5. All regulations adopted by the predecessor entities, continuing entities and any of their predecessors in effect immediately preceding the effective date of this section shall remain in effect and shall be fully enforceable unless and until readopted, amended, or repealed. Any statute, law, rule, or regulation now in force, or that may hereafter be enacted or adopted with reference to the predecessor entities, continuing entities or any of their predecessors shall mean the Department of Health and Human Services. Any action by or against the predecessor entities, continuing entities or any of their predecessors shall not abate but shall continue in the name of the Department of Health and Human Services, and the Department of Health and Human Services shall be substituted for the predecessor entities, continuing entities and any of their predecessors by the court wherein the action is pending. The substitution shall not in any way affect the rights of the parties to the action.

12822.6. No contract, lease, license, bond, or any other agreement to which the predecessor entities, continuing entities or any of their predecessors are a party shall be void or voidable by reason of this act, but shall continue in full force and effect, with the Department of Health and Human Services assuming all of the rights, obligations, liabilities, and duties of the predecessor entities, continuing entities and any of their predecessors. That assumption by the Department of Health and Human Services shall not in any way affect the rights of the parties to the contract, lease, license, or agreement. Bonds issued by the predecessor entities, continuing entities or any of their predecessors on or before July 1, 2005, shall become the indebtedness of any newly created entity. Any on-going obligations or responsibilities of the predecessor entities and continuing entities for managing and maintaining bond issuances shall be transferred to the newly created entity without impairment to any security contained in the bond instrument.



12822.7. On and after July 1, 2005, the unexpended balance of all funds available for use by the predecessor entities, continuing entities or any of their predecessors in carrying out any functions transferred to the Department of Health and Human Services shall be made available for the use by the Department of Health and Human Services. All books, documents, records, and property of the predecessor entities and continuing entities shall be transferred to the Department of Health and Human Services.

12822.8. On and after July 1, 2005, positions filled by appointment by the Governor in the predecessor entities or continuing entities shall be transferred to the Department of Health and Human Services. Individuals in positions transferred pursuant to this section shall serve at the pleasure of the Governor. Titles of positions transferred pursuant to this section shall be determined by the Secretary with the

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Saturday, September 11, 2004

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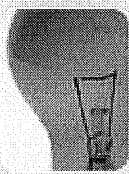
California Performance Review

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CPR COMMISSION HEARING SCHEDULE



**CPR Commission Hearing
Health and Human Services
U.C. San Diego
Friday, August 20, 2004**

Hearing Transcript

Welcome

10:00 - 10:05

Marsha A. Chandler

Acting Chancellor

U.C. San Diego

Welcoming Remarks

10:05 - 10:10

Bill Hauck and Joanne Kozberg

Co-Chairs, California Performance Review Commission

Overview of CPR Health and Human Services

10:10 - 10:50

Recommendations

Terri Parker and Bob Sertich

Team Leaders, CPR Health and Human Services Team

[CPR Overview presentation](#)

8-20 CPR HHS presentation**Health and Human Services Delivery Panel**

10:50 – 11:50

Mark B. Horton, M.D., MSPH

Deputy Agency Director and Health Officer, Orange County Health
Care Agency Representative, California Council of Local Health
OfficersTestimony (as submitted)

Sam Karp

Director of Health Information Technology, California Health
FoundationTestimony (as submitted)

Barbara Kondylis

County Supervisor, Solano County

Representative, California State Association of Counties

Testimony (as submitted)

Will Lightbourne

Director, Santa Clara County Social Services Agency

President, County Welfare Directors Association of California

Testimony (as submitted)

Stephen J. Maulhardt

Executive Vice President, Aegis Medical Systems, Inc.

Representative, California Association for Alcohol and Drug
Program ExecutivesTestimony (as submitted)

Jim Mayer

Executive Director, Little Hoover Commission

Testimony (as submitted)

Dan Souza, LCSW

Director, Stanislaus County Behavioral Health and Recovery
Services Governing Board Member, California Mental Health
Directors AssociationTestimony (as submitted)**Lunch**

11:50 - 12:35

Health and Human Services Advocates Panel

12:35 - 1:50

Kevin Aslanian
Executive Director, Coalition of California Welfare Rights
Organizations, Inc.
Testimony (as submitted)

Mike Herald
Legislative Advocate, Western Center on Law and Poverty
Testimony (as submitted)

Marilyn Holle
Senior Attorney, Protection and Advocacy, Inc.
Testimony (as submitted)

Peter Mendoza
Chair, State Council on Developmental Disabilities
Testimony (as submitted)

Arthur Naldoza
Deputy Director, La Cooperativa Campesina de California
Testimony (as submitted)

Carole Shauffer
Executive Director, Youth Law Center
Testimony (as submitted)

Catherine Teare
Director of Policy, Children Now
Testimony (as submitted)

Debra M. Ward, M.P.H.
Deputy Director, Community Clinic Association of Los Angeles
County
Testimony (as submitted)

Lucien Wulsin Jr.
Project Director, Insure the Uninsured Project
Testimony (as submitted)

Health and Human Services Provider Panel

1:50 - 2:25

Steve A. Escoboza
President and CEO, Healthcare Association of San Diego and
Imperial Counties
Testimony (as submitted)

Elia V. Gallardo

Director of Government Affairs, California Primary Care Asso
Testimony (as submitted)

Robert E. Hertzka, M.D.
President, California Medical Association
Testimony (as submitted)

Steven Tough
President and CEO, California Association of Health Plans
Testimony (as submitted)

Public Comment

2:25 - 4:00

Adjourn

4:00

Supplemental Testimony

(Received as of 8/19/04)

Sanford Bernstein, Ph.D., Chair, Research Committee,
American Heart Association Western States Affiliate

Ray Durazo, Chairman of the Board, & Hannah Valantine, M.
President, American Heart Association, Western States Affili

The Avisa Group

Terry Bott

California Association of Area Agencies on Aging
Ronald Errea, President

California Association of Alcohol and Drug Program Executive

California Alliance of Child and Family Services
Carroll Schroeder, Executive Director

The Coalition of Alcohol and Drug Associations

Connie Moreno-Peraza, President, The County Alcohol and D
Program Administrators Association of California

California Alternative Payment Program Association
Denyne M. Kowalewski, Executive Director

[California Budget Project](#)

[California Conference of Local Health Officers](#)

[Nancy Dolton, Chair, California Commission on Aging](#)

[Miriam Aroni Krinsky, Executive Director, Children's Law Center of Los Angeles](#)

[Martin Martinez, MPP, Policy Director, California Pan-Ethnic Network](#)

[California State Rural Health Association](#)

[Robert Donin, President, TRI-PAC Health and Wellness Advocates](#)

[Barrie Becker, State Director, & Brian Lee, Policy Director, FIGHTING CRIME: INVEST IN KIDS California](#)

[Donna Gerber, Director of Government Relations, California Association of Governments](#)

[Leland "Stew" Hanson, Disabled Retiree, Los Angeles School District](#)

[Cynthia Huckelberry, RN, MA](#)

[Latino Coalition for a Healthy California](#)[Patricia Diaz, Policy Director](#)

[Lynn Kersey, MA, MPH, Executive Director, Maternal and Child Health Access](#)

[Bill Bowman, CEO, Regional Center of Orange County](#)

[United Domestic Workers of America](#)

[Western Center on Law and Poverty](#)

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August 27, 2004



An Initial Assessment of The California Performance Review

ELIZABETH G. HILL • LEGISLATIVE ANALYST

On August 3, 2004, the California Performance Review (CPR) released its report on reforming California's state government, with the aim of making it more efficient and more responsive to its citizens. This report provides our initial comments on the CPR report. Specifically, we: (1) provide an overview of its reorganization framework and other individual recommendations, (2) discuss the savings it assumes from its major proposals, and (3) raise key issues and considerations relating to CPR's various proposals. ■

INTRODUCTION

On August 3, 2004, the California Performance Review (CPR) released its report to the Governor on reforming California government. The report lays out a framework for reorganizing and consolidating state entities, and contains 278 issue areas and 1,200 individual recommendations aimed at making state government more modern, efficient, accountable, and responsive to its citizens. The CPR also adopted the 239 proposals included in a report recently issued by the Corrections Independent Review Panel. The CPR asserts that the state would achieve about \$32 billion in savings over the next five years if all of its recommendations were fully adopted.

The CPR has four volumes. The first sets forth its major goals, the second lays out a reorganization plan for state government, the third provides a budget and financial review of California state government, and the fourth contains CPR's individual proposals.

LAO's Bottom Line. The CPR provides the state with a valuable opportunity to comprehensively examine how it does business. It has made a serious effort at rethinking the current organization of state government and how it delivers services to the people of California. We find that many of its individual recommendations would move California toward a more efficient, effective, and accountable government.

At the same time, the rationale for some of its reorganization proposals is not clear, it does not examine whether the state should continue

to perform certain functions, and many of its fiscal savings estimates are overstated.

For these reasons, it will be important for the Legislature to evaluate the merits of the proposals individually, looking at their policy trade-offs, their likely effectiveness, and their fiscal implications. The Legislature also may wish to consider broadening the scope of reforms offered by CPR to include a more comprehensive examination of the state and local tax system, the role of constitutional officers, the state's system of funding education, and the relationship between state and local government.

Organization of This Report. This report, which provides our initial reaction to the CPR report, has three sections:

- "Section 1" provides an *overview* of CPR's reorganization plan and its other proposals, reviews CPR's estimated savings from its proposals, and discusses key issues for the Legislature to consider in reviewing the plan.
- "Section 2" looks at the *reorganization framework* in more detail and discusses key principles that should guide a reorganization.
- "Section 3" reviews CPR's *key proposals* in each of the major areas of the budget, providing some context for the proposals and our initial reaction to them.

SECTION 1: OVERVIEW

CPR'S MAJOR COMPONENTS

The CPR has two major components—a reorganization of state entities and other individual recommendations. Below we briefly describe both of these components.

Reorganization of State Entities

The CPR proposes a major reshuffling of the state's agencies, departments, boards, commissions, and other entities. In reorganizing state government, the CPR proposal focuses on aligning similar programs and consolidating administrative functions in order to eliminate duplication of effort and improve customer service. The major components of the reorganization are:

- **Creation of 11 Mega-Departments.** The core of the CPR reorganization is the creation of 11 large, mega-departments. These mega-departments would merge the policy-setting function of agencies with the program administration function of departments.
- **Office of Management and Budget.** The CPR reorganization would also consolidate the state's policy and budget oversight agencies into a unified Office of Management and Budget (OMB). The OMB would be responsible for oversight on budgetary, state employment and retirement, technology, and regulatory matters.
- **Tax Commission.** The CPR proposes to merge three of the state's principal tax collections agencies—the Franchise Tax

Board, Employment Development Department, and the Department of Motor Vehicles. The Board of Equalization (BOE), however, would be retained as an independent entity.

- **Discontinuation of Many Boards and Commissions.** The report recommends discontinuing 117 independent boards, commissions, and task forces—including the Air Resources Board, Energy Commission, Student Aid Commission, Board of Prison Terms, and Youth Authority Board. For the majority of these discontinuations, the CPR consolidation would move these entities' activities under one of the new mega-departments.

Individual Recommendations

As noted above, the CPR identifies 278 issue areas and contains about 1,200 specific proposals affecting a wide range of government programs. Although the proposals cover a vast number of individual areas, they can be generally placed into one or more of the following five broad categories.

- **Enhancing Program Efficiencies and Service Levels.** Some major examples in this area are: (1) a major proposal to consolidate the eligibility determination process for California Work and Responsibility to Kids (CalWORKs), Medi-Cal, and food stamps; (2) both general and specific proposals relating to the state's workforce; (3) proposals to expand use

of new technologies, such as SMART cards for Medi-Cal, and electronic benefit transfer cards; (4) proposals to increase reliance on the Internet for such things as motor vehicle fee payments and benefit and licensing applications; and (5) various contracting and procurement reforms.

- ***Shifting Program Responsibilities and Funding.*** These include a targeted realignment of state and local health and social services programs, as well as several proposals to shift costs away from state government to other entities. These include (1) seeking additional federal funds, (2) shifting property taxes from enterprise special districts for the benefit of the state, (3) shifting responsibility for certain highways from the state to local governments, and (4) increasing student fees on out-of-state residents.
- ***Privatization.*** These include the contracting out to the private sector such functions as child support administration, job training, and health care for prison inmates.
- ***Changes in Governance.*** These include the elimination of boards and commissions, the consolidation of county offices of education into regional bodies, the elimination of the community colleges' Board of Governors, and a new structure for overseeing the state's use of information technology.
- ***Changes in Policy.*** While CPR primarily focuses on issues related to efficiencies

and service delivery, it does include several proposals that involve significant changes in underlying policies. Examples include the imposition of a sales tax credit for new business investment, changes in the regulation of timber and other natural resources, expanded use of high occupancy toll lanes, allowing community colleges to offer bachelor degrees, expanding the lottery, and changing the cutoff age for kindergarten enrollment.

CPR's SAVINGS ESTIMATES

The CPR indicates that its proposals, if fully adopted, would generate savings of slightly over \$1 billion in 2004-05 and \$32 billion over the next five years combined. According to CPR estimates, about one-third of the cumulative savings would accrue to the General Fund and the remaining two-thirds would accrue to special funds, federal funds, and local funds. Figure 1 (see next page) shows that on an annual basis, savings to the General Fund are projected to be in the range of \$2 billion to \$3 billion per year starting in 2005-06, while annual savings to other funds are projected to average \$5 billion to \$6 billion.

Proposals With Major Fiscal Effects

As shown in Figure 2 (see page 7), proposals in 15 issue areas account for almost 88 percent of the total savings estimated by CPR for the next five years. Nearly one-half the total is related to just three broad proposals: one to maximize federal grants (\$8.2 billion), another to transform eligibility processing for Medi-Cal, CalWORKs, and food stamps (\$4 billion), and

the third related to the creation of a workforce plan for California state employees that would result in fewer employees (\$3.3 billion). Significant savings are also scored for transportation funding proposals which include seeking higher federal taxes on fuels containing ethanol, changes in enrollment cutoff dates for kindergarten, biennial vehicle registration (mostly one-time revenues from the acceleration of fees paid by motorists), increased lottery sales, and increases in college and university tuition for out-of-state residents.

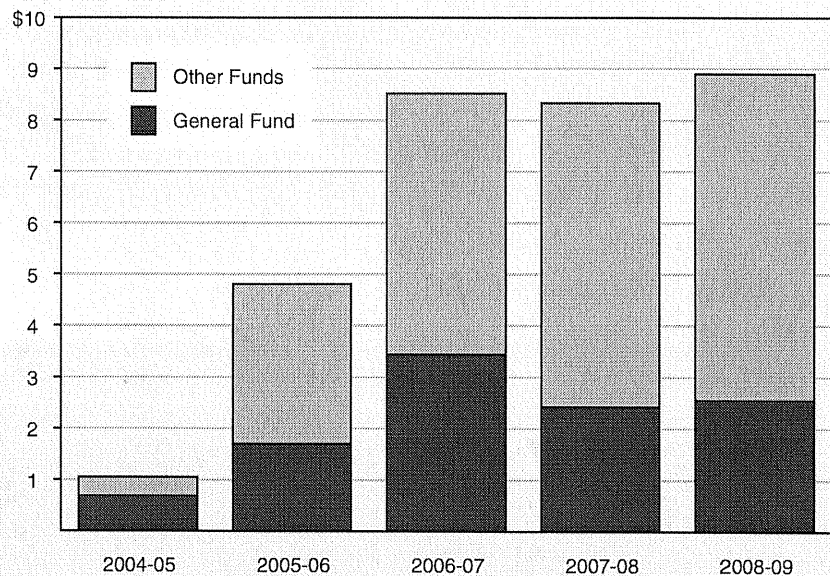
Savings Overstated. In many instances, the CPR was conservative in scoring savings from its individual proposals—acknowledging that actual savings, while likely, simply could not be estimated. However, in other instances, the CPR scored savings that are uncertain or overstated. This is especially the case with regard to many of the proposals with the largest identified savings shown in Figure 2. Specifically, we found that:

- **Many of the Proposals Not Fully Developed.** This is particularly the case for the third proposal in Figure 2, where the CPR scores over \$3 billion in cumulative savings from the development of an as-yet unspecified workforce plan.

- **Savings Depend on Federal Actions Rather Than Specific CPR Recommendations.** This applies to the proposal to maximize grant funds from the federal government, as well as the proposal to seek a higher federal tax rate on fuels containing ethanol (which would result in added transportation-related distributions to California). California has long argued for additional federal grants to recognize such factors as its higher-than-average poverty levels and its higher-than-average costs associated with illegal immigration. However, significant increases in federal funds would require changes in federal funding formulas, with potentially negative implications for other states. California is already lobby-

Figure 1
CPR Estimate of Savings From Its Proposals

(In Billions)



ing Congress for increased federal taxes on fuels containing ethanol. It is not clear how the process change recommended by CPR will result in the report's assumed level of federal funds.

- **The Potential Savings Are Beyond What Is Reasonably Achievable.** This applies to several proposals involving consolidations of eligibility determination and procurement processes, lottery savings, and the proposed tax relief for new business equipment investment.
- **Offsetting Costs Not Consistently Recognized.** This is the case for many proposals which would require an initial expenditure of funds in order to realize future savings. Implementation of new

information technology systems is one such example.

- **Savings From Similar Proposals Have Already Been Adopted in the 2004-05 Budget.** This is the case for the tax amnesty, surplus property, nonresident student fee, and several corrections proposals.

Taking into account these factors, we believe that a more realistic savings assumption *attributable to state actions* would be less than one-half of the \$32 billion shown. While any estimate of savings is highly uncertain, we believe that a more reasonable cumulative estimate for all funds over the next five years would be roughly \$10 billion to \$15 billion. In annual terms, this translates into \$3 billion or less per year, divided

Figure 2
Fifteen CPR Proposals With Largest Fiscal Effects

(CPR Estimates, Dollars in Millions)

Rank	CPR Reference	Issue	Five-Year Savings			Cumulative Percent of Total
			General Fund	Other Funds	Total	
1	GG 07	Maximize Federal Grant Funds	—	\$8,200	\$8,200	26%
2	HHS 01	Transform Eligibility Processing	\$1,548	2,471	4,018	39
3	SO 43	Work Force Plan for California State Employees	1,646	1,646	3,293	49
4	ETV 11	Change Enrollment Entry Date for Kindergartners	1,880	820	2,700	58
5	INF 15	Transportation Funding Initiatives	—	1,960	1,960	64
6	GG 36	Biennial Vehicle Registration	1,259	—	1,259	68
7	GG 06	Lottery Reforms	—	1,024	1,024	71
8	ETV 18	Increase College and University Tuition for Non-Resident Students	—	1,004	1,004	74
9	SO 71	Performance-Based Contracting	485	485	970	77
10	SO 72	Strategic Sourcing	427	427	855	80
11	INF 30	Decentralize Real Estate Services	410	410	819	83
12	INF 13	Relinquish Highway Routes to Local Agencies	—	432	432	84
13	GG 01	Tax Amnesty	384	15	399	85
14	INF 11	Selling Surplus Property Assets	379	—	379	86
15	GG 17	Tax Relief on Manufacturing Equipment	343	—	343	88
		All Other CPR Proposals	2,029	1,921	3,950	100
Totals, All CPR Proposals			\$10,791	\$20,815	\$31,606	100%

roughly evenly between the General Fund and other funds. Regarding the revised General Fund total, nearly one-half of the savings would be attributable to a single proposed change—the delay in the enrollment entry date for kindergartners who are less than five years old at the beginning of the school year.

Our lower overall savings estimate does not make the goals or proposals offered by the CPR any less valid. The state would clearly benefit from changes that enhance workforce productivity, improve and streamline services, and reduce inefficiencies in government—even if the savings were only a fraction of the CPR estimates. At the same time, it is important to recognize that even if all the CPR’s recommendations were adopted, the fiscal savings would only cover a relatively small portion of the large structural shortfall facing California’s budget in the future. Stated another way, even if the proposals were adopted, the state will continue to face hard choices regarding program funding levels and taxes in order to balance its future budgets.

ISSUES AND CONSIDERATIONS

The CPR has developed an impressive list of proposals in a relatively short timeframe, which provides the state with a valuable opportunity to examine many aspects of how it does business. At the same time, the report raises a large number of important policy issues which need to be considered.

Does a Massive Reorganization Make Sense?

California’s past successes and failures with reorganization plans strongly suggest that reorganizations should be undertaken only when (1) there is a clearly defined problem with

the existing system and (2) there is a convincing reason to believe that the new system will address the problem and, more generally, enable the state to provide services more efficiently and effectively. We believe there are a number of areas that the CPR has identified where these fundamental criteria may apply. For instance, in the health area, the proposed centralization of a number of public health programs could improve their effectiveness.

Yet, in many other areas, the reorganization plan lacks a strong rationale. As we discuss in more detail in “Section 2,” among the problems we identify are:

- The reorganization proposal often lacks sufficient detail to evaluate whether a proposed consolidation would improve state government.
- In some cases, functions are proposed to be joined that are not particularly compatible.
- In some cases, existing departments are divided—with their component functions distributed among several new departments. This may create new coordination problems.
- By moving to mega-departments which would have wide-reaching responsibilities, the CPR risks making departments so large that they become unmanageable.
- The proposed reorganization would result in significant implementation costs, particularly in the short term. In many cases, the fiscal estimates of the CPR do not take into account these expenses.

Given these concerns, we recommend that the Legislature not focus its attention on the large-scale statewide reorganization that the CPR envisions. Instead, the Legislature should seek out more specific opportunities to pursue consolidations on a smaller scale. Many of the current problems that CPR identified could be solved with simpler solutions. A combination of limited consolidations and other types of solutions (such as improved leadership, policy changes, better coordination between departments, interagency agreements, and cross-departmental training) offers a better chance of improving the effectiveness of state government while limiting the risks involved.

Should the Scope of Reforms Be Broadened?

The CPR's proposals encompass a broad range of issues. However, there are a number of fundamental issues that were not considered in the analysis. For example, while the CPR reorganization plan regroups and consolidates a vast number of existing functions of state government, the CPR does not examine the more fundamental question of which functions should continue to be provided by the state. In addition, although the CPR presents a modest realignment proposal, the report does not comprehensively address the state-local system of service delivery. Similarly, while including a single tax incentive proposal, the CPR does not examine California's overall system of state and local taxes.

Finally, while the plan proposes specific changes to the Constitution as it relates to transportation and a biennial budget, it does not address many other constitutional issues, such as the role of constitutional officers and agencies in the restructured government. The latter is a

significant consideration in the context of the CPR's proposed reorganizations. As noted in "Section 2" and "Section 3" of this report, the future roles of the Superintendent of Public Instruction and the BOE—two constitutionally created entities—are left somewhat undefined in the context of the restructured government proposed by the CPR.

Addressing these more fundamental issues may have been beyond the scope of what the CPR believed was its mission, especially given the relatively limited time it had to complete its review. However, the lack of reforms in these areas inherently limits the amount of improvement in governmental services that can be achieved through the CPR.

For example, while some of the CPR proposals may improve efficiency and coordination of state functions, citizens may continue to be faced with the fragmentation of services between state and local governments. Similarly, while the creation of a new tax commission may result in some added efficiencies in the collection and auditing of certain taxes, the exclusion of the BOE from the consolidation means that the state's two largest taxes—the personal income tax and sales tax—will continue to be administered by separate agencies. To address these issues, the Legislature may wish to broaden the scope of reforms it considers.

What Is Next?

The release of the CPR is intended to be a first step in a dialog on governmental reform. Its specific proposals have not yet been embraced by the administration. Rather, the Governor has directed the CPR commission to hold public hearings to seek input on the report's recommendations.

Ultimately, the reorganization plan could be proposed by the Governor through the specific reorganization process provided for in state law (and discussed in “Section 2”). Some of the other recommendations—such as those requiring departments to develop performance measures—could be implemented administratively by the Governor. Other recommendations could be included in the Governor’s 2005-06 or later budgets, or proposed through separate legislation.

Thus, while some of the 1,200 CPR proposals can be adopted administratively, many of them will require legislative approval in order to be implemented. The merits of each proposal would need to be weighed on its own. In “Section 3” we review some of the CPR’s key proposals in major program areas and offer our initial comments on them. Some of the recurring issues raised by our analyses are:

- **More Details Needed.** While many of the more modest proposals are highly detailed, many major proposals are less so. Also, the fiscal estimates associated with many of the proposals

SECTION 2: CPR REORGANIZATION

One of the major components of the CPR report is a reorganization of the state's departments, agencies, boards, and other entities. Below, we describe this reorganization plan and then provide some of our initial observations.

PRINCIPLES OF THE CPR REORGANIZATION

The CPR report puts forth two principles that are at the center of its approach to reorganizing state entities:

- ***Programs Should Be Aligned by Function.*** The report attempts to combine entities that work in the same policy area or provide similar services. This approach aims to eliminate duplication and improve the performance of state programs.
- ***Administrative Services Should Be Consolidated.*** In addition, the report aims to unify support services within each new department such as human resources, legal affairs, and purchasing—with the goals of greater efficiencies and achieving “economies of scale.”

In addition to these principles, the report also emphasizes improving customer service and ensuring that the best and most effective practices of individual departments are used throughout state government.

COMPONENTS OF THE REORGANIZATION

Mega-Departments. Currently, the state is organized with both agencies and departments. Agencies generally perform policy-setting and

oversight roles in a particular policy area. Under an agency's supervision, departments implement programs. For instance, the Department of Financial Institutions (DFI) regulates banks and credit unions under the guidance of the Business, Transportation, and Housing Agency. The core of the CPR reorganization is the creation of 11 large, mega-departments. The proposed 11 departments are listed in Figure 3 (see next page). These mega-departments—called “departments” by CPR—would merge the policy-setting function of agencies with the program administration function of departments.

In most cases, these new departments would represent the merger of several existing departments. For instance, both DFI and the Department of Corporations would merge as a new Financial Services Division within the proposed Commerce and Consumer Protection Department. Other divisions within the same department would include most functions from existing departments such as the Department of Motor Vehicles (DMV) and the Department of Real Estate. In other cases, existing departments are divided—with their component functions distributed among several new departments. For example, functions from the Department of Fish and Game would be distributed to the Environmental Protection, Natural Resources, and Public Safety and Homeland Security Departments.

Discontinuation of Many Boards and Commissions. The state has hundreds of boards, commissions, and task forces which serve a variety of roles—including administering grant programs, regulating industries, and providing policy advice. These entities generally are governed by a board appointed by the Gover-

nor, Legislature, or other state officials. Some board members receive full-time salaries while many others only receive reimbursements for their travel and other expenses. The CPR identified 339 existing boards, commissions, and task forces across state government. The report recommends discontinuing 117 of these entities, including the Air Resources Board, State Lands Commission, Energy Commission, State and Regional Water Quality Boards, Student Aid Commission, Victims Compensation and Government Claims Board, Board of Prison Terms, and Youth Authority Board. For the majority of these discontinuations, the CPR consolidation would move these entities' activities under one of the new mega-departments. In other words, the government activity would continue but be governed by a departmental secretary, rather than an independent board. On the other hand, the CPR would eliminate both the function and the entity in about four dozen cases. Most of these entities entirely eliminated provide policy advice to the state (such as the Rural Health Policy Council and the 911 Advisory Board) rather than administer programs. The report notes that the elimination of these advisory boards could

be replaced with ad-hoc advisors on an as-needed basis.

Other New Entities. In addition to the creation of the mega-departments, the CPR proposes to create several other new entities in state government, including:

- **Office of Management and Budget.** The state currently has a number of "control" agencies which provide policy and fiscal oversight to the state's other entities. For instance, the Department of Finance (DOF) is the state's fiscal and budget review department. Likewise, the Department of Personnel Administration (DPA) provides departments with services related to state employment. The

Figure 3
CPR's 11 Mega-Departments

Proposed Department	Major Departments Transferred
Commerce and Consumer Protection	Financial Institutions, Consumer Affairs, Motor Vehicles
Correctional Services	Corrections, Youth Authority, Board of Prison Terms, Office of Inspector General
Education and Workforce Preparation	Community Colleges Chancellor, Board of Education, Student Aid Commission
Environmental Protection	Water Quality Control Boards, Air Resources Board, Pesticide Regulation
Food and Agriculture	Food and Agriculture
Health and Human Services	Health Services, Social Services, Mental Health, Developmental Services, Child Support
Infrastructure	Transportation, State Water Project, Energy Commission, Bay-Delta Authority
Labor and Economic Development	Industrial Relations, Employment Development
Natural Resources	Conservancies, Fish and Game, Forestry (Resource Management), Parks and Recreation
Public Safety and Homeland Security	Emergency Services, Highway Patrol, Forestry (Fire Protection)
Veterans Affairs	Veterans Affairs

CPR proposes to consolidate these types of entities into a single Office of Management and Budget (OMB). The OMB would be responsible for oversight on budgetary, state employment and retirement, technology, and regulatory matters. Functions from DOF, DPA, the state's data centers, Department of General Services, and the Office of Administrative Law would be transferred to the OMB.

- **Tax Commission.** The CPR proposes that the state's principal tax collection agencies be consolidated into the California Tax Commission. The commission would include components of the Franchise Tax Board, Employment Development Department, and DMV. The report, however, indicates that the Board of Equalization would be retained as an independent agency.

Some Entities Largely Unaffected. In some areas, the CPR proposes few, if any, changes to existing department structures. For instance, constitutional officers are left largely unaffected. In addition, the Military Department would remain an independent entity outside of the mega-department structure. The Departments of Food and Agriculture and Veterans Affairs would be elevated to mega-departments, but their roles and responsibilities would remain largely unchanged.

IMPLEMENTATION

The report acknowledges that fully implementing its governmental reorganization is an "ambitious" undertaking. The report provides few details on a timeframe for implementation

but suggests the use of a centralized performance review team to coordinate any consolidations.

The Reorganization Process. State law provides a specific process for the Governor to propose reorganizations to the Legislature. Since 1968, various Governors have submitted 29 reorganization plans through this process. The Legislature approved 18 of these plans. Figure 4 (see next page) lists these plans, and the box (see pages 18-19) provides a historical perspective on reorganizing state government as it relates to the health and social services area.

Figure 5 (see page 15) provides a sample timeline for the reorganization process. In total, a reorganization plan can take 90 days to become effective. Among the key components of the process are:

- **Goals.** State law encourages the Governor to seek reorganizations which reduce expenditures, increase efficiency, and eliminate duplications of effort.
- **Little Hoover Commission.** As part of the process, the Governor submits any plans to the Little Hoover Commission for review and public hearings. The Commission has 60 days to report any findings to the Governor and the Legislature.
- **Civil Service Transition.** Plans must provide for the transfer of existing state employees from their original department to a new entity carrying out the same function.
- **Legislative Review.** The statute provides for a 60-day legislative review period and calls for policy committees in each house to issue a report on a plan. A plan

Figure 4**Previous Executive Branch Reorganization Proposals**

Year	Governor	Description	Outcome
1968	Reagan	<ul style="list-style-type: none"> Establish four agencies: Business and Transportation, Resources, Human Relations, and Agriculture and Services. 	Approved
1969	Reagan	<ul style="list-style-type: none"> Eliminate various boards and commissions and transfer some functions to other departments. 	Approved
		<ul style="list-style-type: none"> Change the names of the Department of Harbors and Waterways and the Harbors and Watercraft Commission. 	Approved
		<ul style="list-style-type: none"> Change staff titles and organization names in the Department of Professional and Vocational Standards (DPVS). 	Approved
1970	Reagan	<ul style="list-style-type: none"> Create the Department of Health and consolidate three departments. 	Approved
		<ul style="list-style-type: none"> Change DVPS to the Department of Consumer Affairs. 	Approved
1971	Reagan	<ul style="list-style-type: none"> Change the names of some of the water quality control boards. 	Failed
		<ul style="list-style-type: none"> Eliminate the State Board of Drycleaners. 	Failed
		<ul style="list-style-type: none"> Change the name of the Resources Agency to Environment and Resources Agency and create the Department of Environmental Protection. 	Failed
1975	Brown	<ul style="list-style-type: none"> Consolidate air, water quality, and solid waste programs into the Environmental Quality Agency. 	Failed
		<ul style="list-style-type: none"> Consolidate the Divisions of Labor Law Enforcement and Industrial Welfare into the Department of Industrial Relations (DIR). 	Approved
1976	Brown	<ul style="list-style-type: none"> Consolidate air, water quality, and solid waste programs into the Environmental Quality Agency. 	Failed
		<ul style="list-style-type: none"> Consolidate the Office of Alcoholism with the Department of Alcoholic Beverage Control (ABC) and transfer ABC to the Health and Welfare Agency. 	Failed
1977	Brown	<ul style="list-style-type: none"> Transfer functions from the Office of Narcotics and Drug Abuse to a new Department of Health Services (DHS) and create an Advisory Council on Narcotics and Drug Abuse. 	Approved
1978	Brown	<ul style="list-style-type: none"> Transfer industrial safety and occupational health functions from DHS to DIR. 	Approved
1979	Brown	<ul style="list-style-type: none"> Transfer employment functions from DIR to State and Consumer Services Agency and create the Department of Fair Employment and Housing. 	Approved
		<ul style="list-style-type: none"> Create new central agency for personnel administration. 	Withdrawn
		<ul style="list-style-type: none"> Create the Youth and Adult Correctional Agency. 	Approved
1980	Brown	<ul style="list-style-type: none"> Transfer mobilehome functions to the Department of Housing and Community Development. 	Approved
1981	Brown	<ul style="list-style-type: none"> Create the Department of Personnel Administration (DPA). 	Approved
1984	Deukmejian	<ul style="list-style-type: none"> Transfer position classification functions from State Personnel Board to DPA. 	Approved
1985	Deukmejian	<ul style="list-style-type: none"> Create the Department of Waste Management, State Waste Commission, and three regional waste boards. 	Failed
		<ul style="list-style-type: none"> Create a cabinet-level Department of Waste Management. 	Failed
1991	Wilson	<ul style="list-style-type: none"> Create the Environmental Protection Agency and transfer several departments and functions into the new agency. 	Approved
1995	Wilson	<ul style="list-style-type: none"> Reorganize the California Energy Commission. 	Failed
		<ul style="list-style-type: none"> Consolidate the State Police with the California Highway Patrol. 	Approved
		<ul style="list-style-type: none"> Consolidate the State Fire Marshal with the Department of Forestry and Fire Protection. 	Approved
1998	Wilson	<ul style="list-style-type: none"> Eliminate the Department of Corporations, create the Department of Managed Care, and rename the Department of Financial Institutions. 	Failed
2002	Davis	<ul style="list-style-type: none"> Create the California Labor and Workforce Development Agency and transfer several departments into the new agency. 	Approved

goes into effect after the 60-day period unless the Legislature takes action to reject it. Either house can reject a plan by passing a resolution by a majority vote. The vote is “yes” or “no”—the plan cannot be amended by the Legislature.

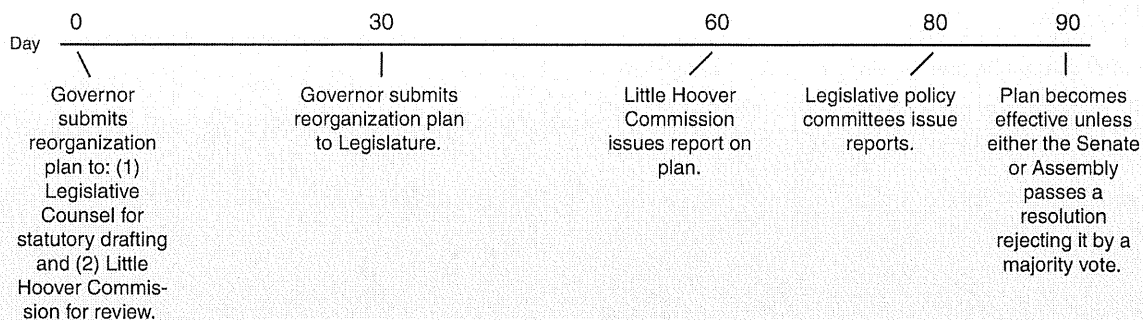
LAO COMMENTS/KEY CONSIDERATIONS

In reviewing the CPR reorganization plan, there are many considerations for the Legislature. Figure 6 (see next page) lists some of the criteria that we would suggest the Legislature use in evaluating any proposed reorganization. Below, we outline some additional considerations specific to the CPR and offer our initial comments on the proposed reorganization. Later in this report, we provide more program-specific comments on some of the more significant components of the reorganization.

Opportunities for Greater Efficiencies Exist, But More Details Needed. Consistent with the CPR, we believe that many aspects of state government’s organization can be improved. Our initial review of the CPR’s consolidation proposal finds that the report has correctly identified some good candidates for consolidation. For instance, in the health area, the proposed centralization of a number of public health programs could improve their effectiveness. Likewise, the merger of the Departments of Mental Health and Alcohol and Drug Programs could allow the state to better coordinate services to those dually diagnosed patients who are currently served by both departments. At this stage, however, the reorganization proposal often lacks sufficient detail to evaluate whether a proposed consolidation would improve state government. Until the full details of a proposed reorganization are put forth, drawing conclusions about many of CPR’s suggestions is difficult.

Figure 5

Timeline for Reorganization Plans^a



^a Pursuant to Government Code Sections 8523 and 12080 through 12081.2.

Reshuffle or Change the Scope of Government? For the most part, the CPR reorganization is a reshuffling of existing state activities. Examining the organization of government services is a necessary and important task. It is not always clear, however, that CPR asked a more fundamental question—*should the state continue to perform its current functions and provide its current services?* As such, the reorganization plan may have missed the opportunity to rethink what level of government should be responsible for each service or if certain government services are still necessary.

Is Changing the Organizational Structure the Solution? As noted above, some of the proposed consolidations offer promise to improve the quality of government services. In other cases, there may be more simple solutions to a massive reorganization. For instance, to increase coordination between two departments, interagency agreements could be developed in place of a full merger. In addition, the administration could use cross-departmental training to spread those management and other practices it has identified as particularly effective.

Possible Unintended Consequences. We recognize that any proposed overhaul of state government on the scale of CPR would invite many questions regarding why certain entities are proposed to be placed in one department versus another. In many instances, reasonable minds can differ over in which location a program would be most effective. That said, our initial review raised some concerns with a number of CPR's choices. The full implementation of the CPR reorganization could lead to some unintended negative consequences. The examples noted below are illustrative that the

Figure 6 Criteria for Considering the Merits of a Reorganization Proposal

As the Legislature considers the CPR and other future reorganization proposals, it may want to consider the following questions to help determine a proposal's merits.

- ✓ **Effectiveness.** Would the reorganization make the programs more effective? Would the public receive better services as a result of the reorganization?
- ✓ **Accountability.** In the current and the new structures, who is responsible for the program's outcomes? Is the new structure likely to improve program accountability?
- ✓ **Oversight.** Will the new structure provide for effective, independent oversight by the executive and legislative branches?
- ✓ **Efficiency.** Would the reorganization improve the use of limited resources? Are there reasons to believe that the programs can be administered more efficiently? Do existing programs exhibit duplication of effort or lack of coordination?
- ✓ **Other Options.** What is the problem that is being addressed? Is a reorganization the best approach to solve that problem? Could improved leadership, changes in policy, better coordination between departments, or other solutions provide a better result?
- ✓ **Implementation.** Do the expected long-term benefits outweigh the short-term costs and disruptions from the implementation of the reorganization? Will the public experience a disruption in services? Does the implementation need to occur now, or can it be phased in over time?

Legislature will need to carefully examine each consolidation component in detail.

- ***Functions May Not Be Compatible.*** In its reshuffling of state departments, the CPR in some cases may have joined functions that are not particularly compatible. For example, the CALFED Bay-Delta Program (overseen by the California Bay-Delta Authority) is designed to approach the Delta from a variety of resource protection perspectives. By moving the authority from the current Resources Agency to the new Infrastructure Department, the CPR could shift the program's focus towards water infrastructure issues and away from other resources issues. Such a shift would represent a significant policy choice for the Legislature. In addition, the CPR proposes to integrate the Department of Managed Health Care (DMHC) with other health programs within the new Health and Human Services Department. These other health programs contract for services with health maintenance organizations (HMOs). These are the same HMO entities that the DMHC regulates. By having a single department regulate and conduct business with HMOs, there is a potential for conflicting goals.

- ***Possibility of Creating New Coordination Problems.*** In some cases, the CPR proposes to divide current departments and send their various components to multiple mega-departments. In doing so, the CPR aims to better align various functions. The splintering of existing departments, however, could create new

coordination problems. For example, the DMV's investigators, who focus on identity theft and fraud, would be sent to the Public Safety and Homeland Security Department and separated from the rest of the department. As a result, these investigators could become disconnected from the DMV field offices that can often help prevent such problems from developing in the first place.

- ***Mega-Departments May Become Unmanageable.*** By moving to mega-departments which would have wide-reaching responsibilities, the CPR risks making departments so large that they become unmanageable. In particular, some of the mega-departments would have such expansive goals, missions, and "span of control" that they may find it difficult to administer their day-to-day responsibilities.

Missed Opportunities. While the CPR reorganization affects most state entities, the Legislature should not consider the plan an exhaustive list of possibilities. In some areas, there appears to be additional room for consolidations to improve state government. For instance, by keeping the Department of Veterans Affairs outside of most of the reorganization plan, CPR may not have considered the option of merging the veterans' homes with the state's other 24-hour care facilities. Similarly, CPR aimed to consolidate all education programs within the Education and Workforce Preparation Department. Yet, the CPR maintains the existing roles and responsibilities of the Superintendent of Public Instruction (SPI). Maintaining the overlapping responsibilities of the SPI and other

education administrators represents a missed opportunity to repair a central governance issue in K-12 education.

Considering the Merits of Independent Boards. The CPR reorganization emphasizes a transition away from independent boards and commissions and towards executive program management. In evaluating these types of decisions, the Legislature should consider both the benefits and drawbacks regarding the use of independent boards. Among the benefits of independent boards are:

- Boards can include experts in the policy field and offer a variety of policy perspectives.
- Boards may offer more independent, forward-thinking proposals than might be typical from a state department.
- Board meetings are more open to the public than the department decision-making process.

REORGANIZATIONS: A HISTORICAL PERSPECTIVE

Reorganizations: Then and Now

Reorganizing state government by consolidating departments, or breaking them apart, is not new. One of the major differences between prior reorganizations and the CPR proposal is its sheer scope. Previous reorganization proposals have focused on a limited number of related departments and programs. These have included, for example, combining labor and employment departments under one agency in 2002; placing various environmental departments under one agency in 1991; and merging health and certain social services programs into a single department in 1970. The CPR proposal, by contrast, envisions a reorganization of the entire state government, involving virtually every state department and generally consolidating them into larger state entities.

Health and Social Services Experience

Consolidation of Departments in 1973. The CPR's proposal to reorganize health and social services departments into one mega-department is similar—but larger in scope—to one adopted by the Legislature and then subsequently disbanded in the late 1970s. In 1970, Governor Reagan proposed the creation of a unified Department of Health in order to improve the integration of health and related programs, reduce program fragmentation, and further program coordination. In submitting his reorganization plan to the Legislature, Governor Reagan noted: "The Plan that I am submitting to you will enable us to eliminate much of the fragmentation that exists in such fields as mental retardation, alcoholism, and facilities licensing. . . . It will encourage integration of health and related services, replacing the present system under which the consumer must find his way through a maze of uncoordinated services."

- The Legislature often has the ability to oversee a board's management through the nomination approval process. In other cases (such as the High Speed Rail Authority), the Legislature has the authority to appoint board members directly.

On the other hand, independent boards also may have some disadvantages, including:

- Boards may cost more to operate, due to the salaries and associated costs of board members.

- A department can often shuffle resources among multiple programs as dictated by workload. In contrast, since they administer individual programs, boards typically do not have the same degree of flexibility.

- Boards may have difficulty in coordinating their work with state departments when their program responsibilities overlap. When programs all report to the same director under a single department, coordination may improve.

In response to Governor Reagan's proposal, the Department of Health was created effective July 1, 1973 by combining the former Departments of Mental Hygiene, Public Health, and Health Care Services together with the social service functions of the Department of Social Welfare. Among other programs, the new department was responsible for: Medi-Cal, public health, mental health, drug and alcohol, developmental disabilities, licensing and certification of health facilities, and various social services for welfare recipients. (The department was not responsible for providing welfare cash grants, which was assigned to a new Department of Benefit Payments.)

Separation of Departments in 1978. For a variety of reasons, the unified Department of Health was unable to fulfill its promise, leading to the enactment of Chapter 1252, Statutes of 1977 (SB 363, Gregorio), which created five new departments and one new office. In enacting Chapter 1252, the Legislature declared that it was separating the Department of Health into distinct departments in order "to increase individual program visibility, to improve program policy direction and to provide needed public accountability." The new departments were Health Services, Social Services, Mental Health, Developmental Disabilities, and Alcohol and Drug Abuse. The new office was the Office of Statewide Health Planning and Development.

Implications for CPR Proposal. The fact that a large consolidated department did not work the last time around does not mean that the current CPR proposal to establish a consolidated Health and Human Services Department should be rejected automatically. Rather, it provides a cautionary warning that reminds the Legislature and administration that they will need to (1) determine whether there are any lessons to be learned from the state's previous experience, and (2) assess how the new proposed reorganization meets their criteria for improving the delivery of state services.

Unknown Implementation Costs. The proposed reorganization, if implemented, would result in significant implementation costs, particularly in the short term. In many cases, the fiscal estimates of the CPR do not take into account these expenses, such as the costs for integrating data and budget systems and relocating offices. As an example, the recent closing of the Technology, Trade, and Commerce Agency cost millions of dollars in shutdown expenses—

nullifying most of the savings for the first year. While these types of implementation costs typically do not provide sufficient justification on their own to dismiss a proposed reorganization, the Legislature should be aware of them in making its decisions. This is particularly true in the cases when the recommendations are being implemented primarily to generate budget savings.

SECTION 3: REVIEW OF KEY PROPOSALS BY PROGRAM AREA

This section discusses key CPR proposals in major program areas. Given the number of recommendations included in the CPR report, we have identified the recommendation by the number used in the report to the Governor (such as GG 05 referring to General Government recommendation 5) to assist the reader. In the case of criminal justice, CPR has incorporated the recommendations of the Corrections Independent Review Panel (CIRP) and we have referenced chapter numbers in the CIRP as appropriate. Following each programmatic discussion is a figure summarizing the fiscal effect, as estimated by CPR, for the key proposals discussed. When the CPR could not make an estimate, we have adopted its nomenclature of “cannot be estimated” (CBE) for consistency purposes. We offer initial comments on the major proposals to assist legislative consideration of these proposals.

K-12 EDUCATION

The CPR makes 14 recommendations that affect K-12 education. These recommendations

cover a variety of policy areas. Seven of the fourteen recommendations seek changes to help the state department or school districts operate in a more cost-effective manner. Four recommendations propose specific K-12 policies that are designed to help districts meet student needs more effectively. The remaining three recommendations would make structural changes to the roles and responsibilities of state and county educational agencies.

Restructure the Role of the Secretary for Education. The CPR proposes to expand the role of the Secretary for Education by assigning it policy and coordinating responsibilities as the head of a new Department of Education and Workforce Preparation (ETV 01). The recommendation would place six existing state departments under the Secretary, including the State Department of Education, California Community Colleges (CCC), California Student Aid Commission (CSAC), and Commission on Teacher Credentialing. The Secretary would focus on developing educational policy (pre-kindergarten through college), implementing higher educa-



**Summary
Fiscal Impact Table**
(Dollars Displayed in Thousands)

Chapter	2004-05		2005-06		2006-07		2007-08		2008-09		5-Year Cum. Total All Funds
	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	
General Government	\$270,250	\$49,918	\$300,613	\$1,523,087	\$1,477,301	\$2,342,280	\$278,045	\$2,855,642	\$233,773	\$3,107,061	\$12,437,970
Health & Human Services	\$815	\$1,139	\$290,285	\$413,594	\$608,557	\$838,372	\$574,876	\$789,606	\$611,270	\$789,606	\$4,918,120
Education, Training and Volunteerism	\$133,876	\$54,554	\$450,626	\$394,712	\$454,544	\$473,360	\$497,712	\$543,922	\$500,880	\$619,562	\$4,123,748
Infrastructure	\$56,087	\$24,388	\$111,700	\$118,740	\$173,000	\$679,976	\$228,500	\$861,276	\$245,500	\$864,076	\$3,363,243
Resource Conservation and Environmental Protection	\$2,204	\$5,939	\$29,107	\$147,264	\$9,849	\$45,133	\$9,906	\$45,133	\$9,963	\$45,133	\$349,631
Public Safety	\$0	\$1,200	\$0	\$1,600	\$0	\$1,600	\$0	\$1,600	\$0	\$1,600	\$7,600
Statewide Operations	\$218,132	\$222,626	\$517,831	\$506,784	\$713,994	\$699,488	\$835,325	\$817,941	\$946,161	\$927,506	\$6,405,768
Grand Total	\$681,364	\$359,764	\$1,700,162	\$3,105,781	\$3,437,245	\$5,080,189	\$2,424,364	\$5,915,120	\$2,547,547	\$6,354,544	\$31,606,080

The amounts shown for each year in the above chart reflect the total change for that year from Fiscal Year 2003-04

Agenda Item D

Budget Update:

- 1. 2004/05 and Future Year Budgets*
- 2. AG Rate Increase*
- 3. Closure Report: Budget Report for 2004/05*
- 4. Fund Condition Report*
- 5. Relocation of the Department of Consumer Affairs*

Memorandum

To: Organizational Development Committee

Date: September 11, 2004

From: Virginia Herold

Subject: Budget Report

1. 2004/05 and Future Year Budgets

The state's budget for this fiscal year was approved by the Governor July 31. The state's fiscal year runs from July 1, 2004 through June 30, 2005.

The board's budget will be essentially the same as it was last fiscal year with the exception of funding for the AG, which was increased (discussed below).

- **Revenue Projected: \$5,444,287**

The board's revenue for the year is expected to be comprised of \$5,346,813 in licensing fees (98.2 percent) and \$97,474 in interest (1.8 percent). The revenue estimate projected from fees is conservative and traditionally is about 10 percent less than actual revenue will be. Not included in this figure is any money collected from cost recovery or citations and fines.

- **Expenditures Projected: \$7,360,000**

The board's maximum expenditure authority for the year is \$7.36 million. Personnel is the largest expenditure: \$3,686,301 or 50 percent of the board's budget.

- **Redirections and Program Efficiencies to Offset Budget and Staffing Shortages**

At the beginning of each month, the board submits a backlog report to the administration. This report reflects the status of the board's licensing and enforcement activities with respect to processing times. The board's priorities are to investigate consumer complaints and process applications.

One of the greatest hurdles the board faces is responding to telephone

inquiries. The board lacks even one full-time receptionist (both of the receptionist positions we had we lost due to budget restrictions and hiring freezes). The one part-time individual we have performs this function but works at most only three days weekly. As a result, all staff are assigned to take turns at answering the telephones. Status inquiries are not a priority and callers seeking assistance to be walked through the application process are directed to the Web site instead.

This month, the board will implement its subscriber e-mail system that will allow interested parties to list their e-mail address with the board, and then be notified of new items posted on the board's Web site, which they can then download. This system has the potential to increase communication with licensees and others at virtually no cost to the board. Someday it could eliminate publishing and postage costs for newsletters and *Health Notes*. It would allow the board to advise licensees of new law changes, new regulations, product recalls, and even action items from board meetings. The Department of Consumer Affairs is purchasing this software (at our suggestion) and we will be the first agency to use it. The department plans to offer this software to other boards in the department as well.

2. Attorney General's Office Hourly Rates Increase

The Attorney General's Office advised us at the end of January that it would increase its hourly rates for legal services beginning April 1. The board had to absorb this increase for the remainder of the last fiscal year. In April 2004, we were advised that effective July 1, the rates would increase again.

	Previously	Rate April 1	Rate July 1
Attorneys in the LA Office	\$120/hr	\$132/hr	\$139
Attorneys in other AG Offices	112	132	\$139
Legal Assistants	53	91	\$91

This year, the board received an augmentation in its AG budget of \$216,034, to accommodate this rate increase. Our total budget for the AG this year is \$996,839 (or 13.5 percent of the board's budget).

3. Closure Report: Budget Year 2003/04

▪ Actual Revenue Collected: \$6,892,789

The board's revenue for last year was comprised of \$5,641,127 in licensing fees, \$70,306 in interest income, \$874,532 in citation revenue, and \$172,349 in cost recovery. Attachment 1 provides various graphic displays of revenue

for the year.

Chart 1 displays all revenue collected during the year.

Chart 2 displays the breakout of fees collected by renewal fees (73 percent) and application revenue (27 percent).

Chart 3 displays the licensing fees collected by each program type. Pharmacists generate 37 percent of fee revenue, pharmacies generate about 25 percent of fee revenue, and pharmacy technicians generate nearly 20 percent of the fee revenue.

▪ ***Expenditures for 2003/04 -- \$6,816,770***

Attachment 2 provides graphic displays of board expenditures.

The board's largest expenditure was for personnel services (54 percent of all expenditures), which actually exceeded the budgeted amount by \$30,580. This is even more significant since salary expenditures were not made for several inspectors and two managers during part or all of the year who were on parental leave. Personnel services expenses are tracked closely by staff.

Postage has been underfunded in prior years. During 2003/04 to reduce this expense, the board stopped mailing applications and newsletters to pharmacists. Despite these steps, the board still spent nearly \$19,000 more in postage than budgeted (30 percent more).

Fortunately, the board did not spend all of its budgeted amounts in other programs areas (notably printing), which compensates for the over-expenditures.

4. Board Fund Condition

During this fiscal year, the board is projected to spend \$1,915,713 more than it will collect as revenue. Any difference between revenue and expenditures will come from the board's fund (the board's "savings account").

The board's fund condition over the next few years is displayed in Attachment 3. It projects a declining balance over the next three years.

- 2004-05: The board is projected to end this fiscal year with a reserve of 4.7 months of expenditures.
- 2005-06: The reserve decreases to 1.3 months at the end of the year.

In 2006-07, a deficit of 2.3 months is projected.

These figures indicate that repayment of the \$6 million loan borrowed by the

state during 2002/03 will need to begin during mid to late 2005-06.

Note: last year (2003/04), the board spent only slightly less than it made in revenue (\$76,000 less). However, the board collected more than \$1 million in fines and cost recovery last year, and spent \$350,000 less than authorized.

Attachment 1

*Revenue Collected
2003-04*

Chart 1
Fiscal Year 2003/04
Origin of Revenue
\$6,892,789

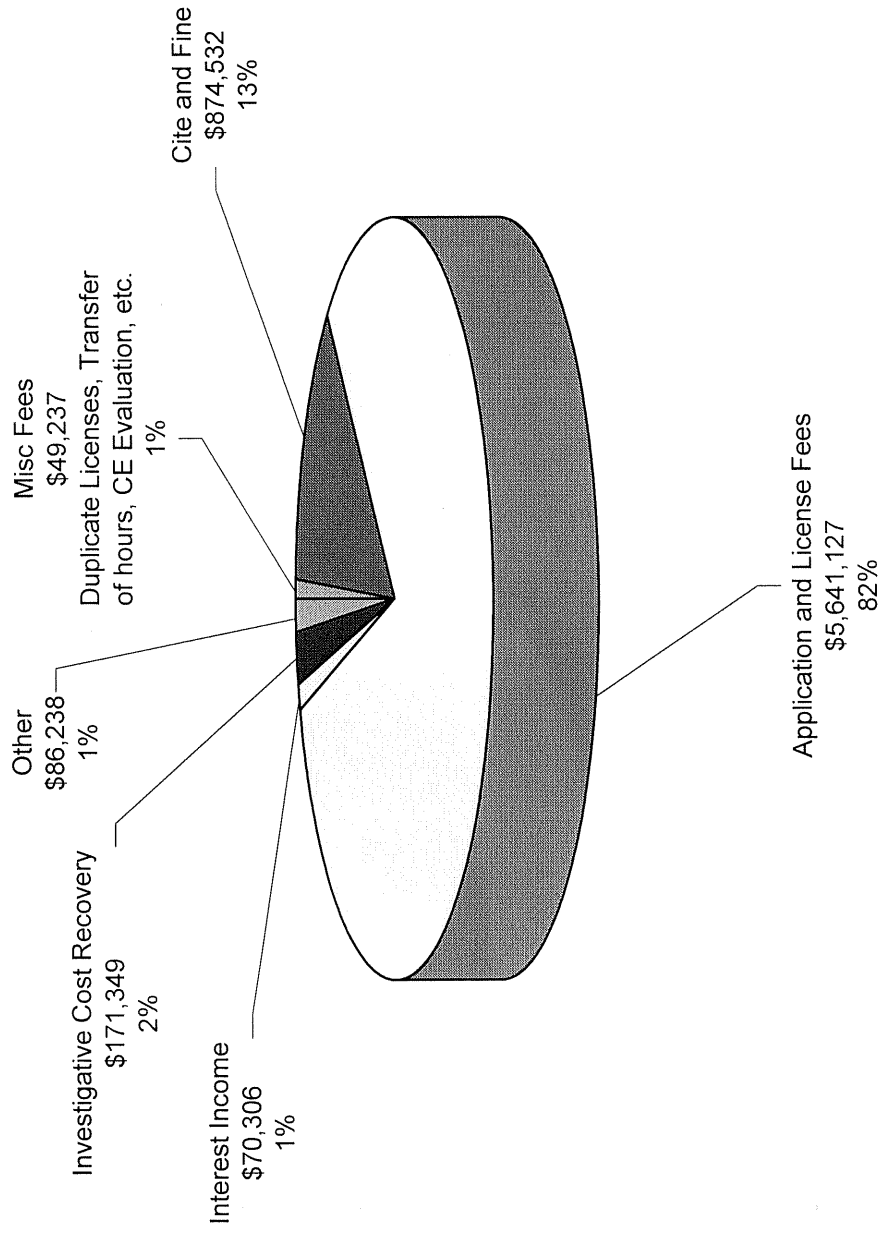


Chart 2
Fiscal Year 2003/04
Application vs Renewal Fees Collected
Total Revenue \$5,641,127

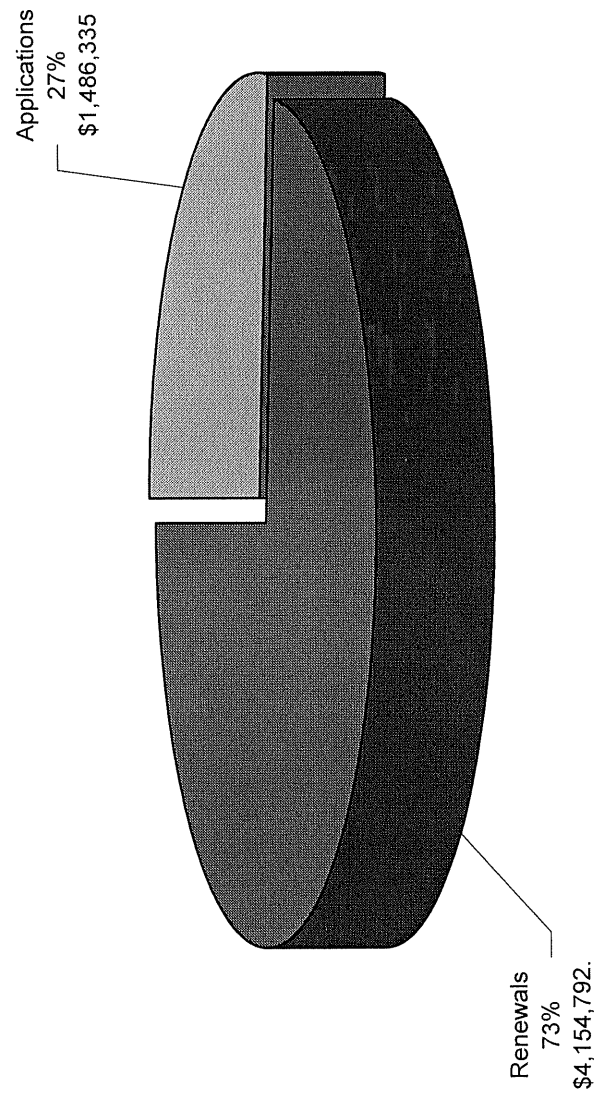
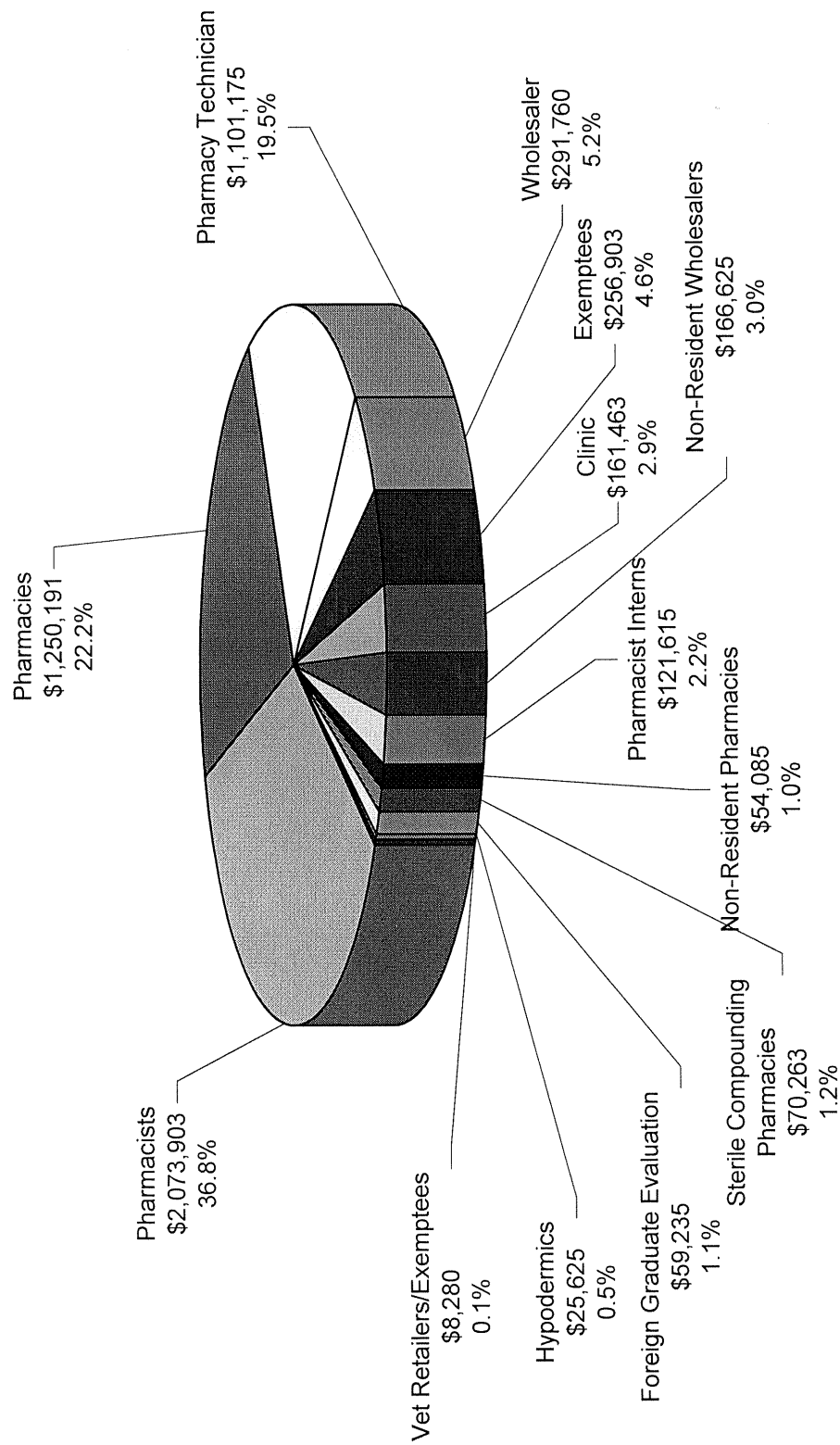


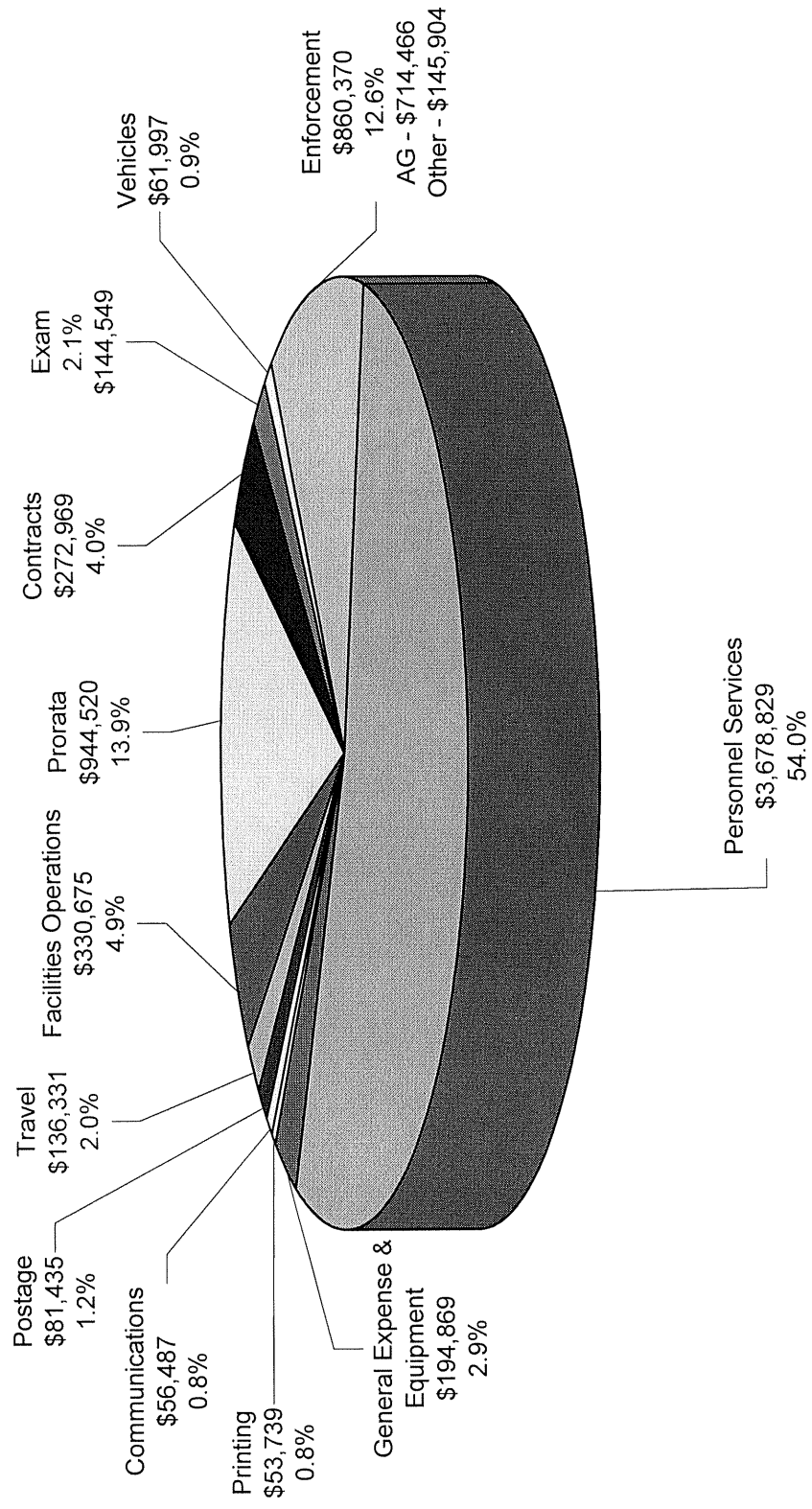
Chart 3
2003/04 Fiscal Year
Licensing Fees by Program Type
\$5,641,127



Attachment 2

Actual Expenditures
2003-04

Chart 4
2003/04 Fiscal Year
Expenditures
\$6,816,770



Attachment 3

Board of Pharmacy Fund Condition

BOARD OF PHARMACY

Analysis of Fund Condition

FUND 0767

	FINAL 2003-04	2004-05	2005-06
BEGINNING RESERVE, JULY 1	4,402,422	4,873,696	2,960,943
Prior Year Adjustment	385,122		
TOTAL ADJUSTED RESERVES	4,787,544	4,873,696	2,960,943
REVENUE			
License Fees	6,580,205	5,349,773	5,314,750
Interest	70,306	97,474	59,219
TOTAL REVENUE	6,650,510	5,447,247	5,373,969
BUDGET ACT TRANSFERS:			
91/92 General Fund Return			
02/03 6 mil GL loan			
TOTAL TRANSFERS	0	0	0
TOTAL REV. AND TRANSFERS	6,650,510	5,447,247	5,373,969
TOTAL RESOURCES	11,438,054	10,320,943	8,334,911
EXPENDITURES			
Budget expenditures (net reimb. Eff. 04/05)	6,816,767	7,360,000	7,507,200
Reimbursement	(252,538)		
Century Charge	129		
TOTAL EXPENDITURES	6,564,358	7,360,000	7,507,200
RESERVE, JUNE 30	4,873,696	2,960,943	827,711
MONTHS IN RESERVE	7.9	4.7	1.3

NOTES:

1. FY 2003/04 TIES TO SCO REPORT
2. INTEREST EARNED AT 2% BEGINNING FY 04/05
3. FY 04/05 APPROPRIATION TIES TO BUDGET ACT 04/05
4. APPROPRIATION INCREASES AT 2% BEGINNING FY 05/06

Agenda Item E

Personnel Update and Report

Memorandum

To: Organizational Development Committee

Date: September 7, 2004

From: Virginia Herold

Subject: Personnel Update

Vacancies:

The hiring freeze in place since late 2001 expired July 1, 2004.

Staff had hoped that recent budget instructions from the Department of Finance (released in what is known as a "Budget Letter") would allow the board to reinstate four positions lost during July 2002-03, when there was a hiring freeze and the board could not fill positions. However, the Department of Finance has narrowly interpreted this policy and the board cannot benefit from it as we had hoped.

The has been able to make the following personnel changes:

- Converted Inspector Brenda Barnard from a half-time to a three-quarters time employee. This was done at Inspector Barnard's request, and is a much-needed augment to the board's inspector staff in the north.
- Upgraded Kim Madsen, an analyst in the Consumer Complaint Unit, to an associate analyst position, reflecting new duties.
- Upgraded Cashier Elizabeth Gromek to a management services technician, a position requiring more follow-up and autonomy.
- Upgraded Kim DeLong to an analyst position in the Enforcement and Administrative Units, where she will perform programming changes and Web site modifications.
- Hired two temporary employees to aid with clerical work in the Licensing and Enforcement Units.
- Hope Tamraz has been hired as a retired annuitant to develop the board's newsletters and update its consumer materials.

At the beginning of September, part-time Receptionist Denise Wong transferred to a full time position in the Department of Health Services. Ms. Wong was worked for the board for approximately five years. This leaves the board with one part-time receptionist. Staff will fill in at the front desk to provide these duties.

The board is seeking to fill two vacancies:

- An inspector position
- A cashier position

The board has recruited for the inspector position, but cannot find an applicant with the qualifications needed by the board. Instead, the board will need to create a new list of eligible pharmacist candidates. The board has requested that the Department of Consumer Affairs conduct a new civil service examination for this classification; we are awaiting a date for the scheduling of this examination.

The board has interviewed applicants for the cashier position and is checking references. A selection will be made shortly.

The board itself has two public board member positions vacant; these positions were created January 1, 2004, and are Governor appointments.

The board has two staff on parental leave: Inspector Cindy Drogichen-Rich and Manager Anne Sodergren (who has returned to work on a part-time basis).